Review for period to 31 December 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

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Bekki Jones, BSc (Hons), IMC
Senior Investment Consultancy Analyst

Jig Sheth, BSc, IMC
Consultant

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Section One – Executive Summary

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

Fund

- The total Fund's assets increased in value by £135m over the final quarter of 2011, to £2,623m as at the end of December 2011. The total Fund underperformed the customised benchmark, returning 5.6% versus the customised benchmark return of 6.1%.
- This underperformance is a result of the combined underperformance of the Fund's investment managers against their benchmarks. Manager performance is discussed below.

Strategy

- The Fund's positive strategic benchmark return was driven by positive equity markets, particularly within the UK and US, and positive UK government bond returns. Corporate bonds also produced positive returns but to a lesser extent.
- The strategic weighting to alternatives (property and fund of hedge funds) was a negative contributor relative to equities but still an absolute positive contributor to the benchmark.
- Outperformance by the Fund against the strategic benchmark over the year was largely a result of being overweight UK index linked gilts which performed strongly over the period. The quarterly outperformance resulted from being underweight hedge funds (which performed relatively poorly) and the outperformance by the property managers against the property benchmark.

Managers

- The strongest outperformance over the quarter was from TT International, outperforming the benchmark return by 2.1% to give an absolute return of 10.5%.
- Genesis (+0.3%), SSgA Europe (+0.1%) and SSgA Pacific Rim (+0.2%) also contributed positively amongst the active / enhanced equity managers but Invesco (-0.8%), Jupiter (-2.0%) and Schroder Equity (-1.1%) all underperformed.
- Schroder Property and Partners both produced positive absolute returns but only the former outperformed its benchmark return.
- All fund of hedge fund managers produced negative absolute (and therefore relative) returns, the most significant of which was from Man, with an absolute return of -3.4%.
- Royal London outperformed its corporate bond benchmark (2.7% vs 2.3%).

Key points for consideration

- There are no fundamental concerns with either the strategy or the Fund's managers.
- The Fund has taken a tactical position to increase its holdings with RLAM corporate bonds and reduce its investments in government bonds. Monitoring of this switch is now underway to ensure that a switch back into government bonds takes place when the trigger level in the corporate bond spread is reached.
- Despite there appearing to have been no immediate negative impact on the performance of the SSgA Europe ex UK Enhanced Indexation Fund, following the significant fall in the size of this fund, it should continue to be monitored carefully.
- Over the coming quarters the implementation of Record's active currency hedging mandate is expected to be completed, after which more meaningful analysis of the impact can be made.
- The Pensions Committee for the Fund continues to develop and amend its Environmental, Social and Governance Policy and the relative performance of the Jupiter UK Equity portfolio should be considered in this context.

Section Two – Market Background

- The table below summarises the various market returns to 31 December 2011, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	8.4	-3.5
Overseas Equities	7.2	-6.9
USA	11.9	2.5
Europe	3.3	-15.0
Japan	-3.6	-12.9
Asia Pacific (ex Japan)	4.4	-14.8
Emerging Markets	4.2	-18.4
Property	1.6	8.1
Hedge Funds	0.8	-2.1
Commodities	9.2	-0.4
High Yield	5.6	3.4
Cash	0.1	0.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-0.2	-0.7
Against Euro	3.1	2.6
Against Yen	-0.4	-5.8

Yields as at 31 Dec 2011	% p.a.
UK Equities	3.52
UK Gilts (>15 yrs)	2.94
Real Yield (>5 yrs ILG)	-0.25
Corporate Bonds (>15 yrs AA)	4.68
Non-Gilts (>15 yrs)	4.82

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	9.6	26.3
Index-Linked Gilts (>5 yrs)	9.8	23.3
Corporate Bonds (>15 yrs AA)	6.4	14.2
Non-Gilts (>15 yrs)	3.7	12.0

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.5	-1.2
Index-Linked Gilts (>5 yrs)	-0.4	-0.7
Corporate Bonds (>15 yrs AA)	-0.4	-0.7
Non-Gilts (>15 yrs)	-0.2	-0.6

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.6	4.8
Price Inflation - CPI	0.7	4.2
Earnings Inflation *	0.5	1.9

* is subject to 1 month lag

Economic statistics

	Quarter to 31 December 2011			Year to 31 December 2011		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.2%	0.7%[2]	2.8%	0.8%	2.0%[2]	1.6%
Unemployment rate	8.4%[3]	9.9%	8.5%	8.4%[3]	9.9%	8.5%
Previous	*8.1%*	*9.8%*	*9.0%*	*7.9%*	*10.0%*	*9.4%*
Inflation change[4]	0.6%	0.8%[3]	-0.5%[3]	4.2%	2.7%[3]	3.0%[3]
Manufacturing Purchasing Managers' Index	49.6	46.9	53.1	49.6	46.9	53.1
Previous	*50.8*	*48.5*	*50.8*	*58.7*	*57.1*	*57.3*
Quantitative Easing [5]	£275bn	€0	$2,654bn	£275bn	€0	$2,654bn
Previous	*£200bn*	*€0*	*$2,654bn*	*£200bn*	*€0*	*$2,054bn*

Source: Thomson Reuters, markit, Office for National Statistics, Institute for Supply Management, Eurostat. All figures to 31 December 2011 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

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

Statistical highlights

- The year on year rate of CPI inflation fell from 5.2% to 4.2% over Q4 2011 and is expected to fall further over the coming months. The Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% throughout the quarter and in October it announced an extension to its policy of quantitative easing, increasing the size of its asset purchase programme by £75 billion to a total of £275 billion. The programme is expected to be completed in February 2012.
- According to the British Retail Consortium ("BRC"), UK retail sales were boosted by a Christmas rush but retailers reported very different results with Tesco and Argos reporting a fall in UK sales and John Lewis and Morrisons reporting a rise. Stephen Robertson, Director General of the BRC said, "a better than hoped-for December closed a relentlessly tough year for retailers, but these figures hinged on a dazzling last pre-Christmas week and were boosted by some major one-off factors."
- The Office for National Statistics ("ONS") confirmed that the number unemployed rose to a 17 year high of 2.68m and that the number of people working part-time because they could not find full-time jobs had reached a record high. Unemployment rose by 118,000 between September and November, taking the unemployment rate to 8.4%.
- Interest rates in the Eurozone were reduced from 1.5% to 1.0% over the quarter as the European Central Bank ("ECB") reacted to the intensification of the sovereign debt crisis by reducing interest rates by 0.25% at both its November and December meetings. The US Federal Reserve kept interest rates on hold at 0.25%. During the quarter, the US Federal Reserve, the ECB and the central banks of the UK, Switzerland, Canada and Japan agreed to provide loans to banks, as it became apparent that Europe's banks were struggling to roll over $2 trillion of loans denominated in US Dollars as a consequence of liquidity in the interbank markets falling sharply.

- The sovereign debt crisis facing the Eurozone continues to be extremely challenging, both politically and economically. The cost of borrowing for countries such as Italy and Spain remains a political "hot potato" because the ECB does not have the power to guarantee bonds issued by member countries or be a buyer of 'last resort'; powers that would be expected to limit speculation and reduce Italian and Spanish government bond yields.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Concerns about the ongoing crisis in the Eurozone have resulted in the Euro falling to its lowest level against the US Dollar for 16 months.
- The FTSE-All Share Index produced a return over the quarter of 8.4% and European equities achieved a return of 3.3%, due to a belief that the markets have priced in the ongoing sovereign debt crisis in the Eurozone. US equities were the strongest performing of the major equity markets producing a return of 11.9% as evidence emerged that the economy was growing at a faster rate than had been forecast. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of 4.4% and 4.2% respectively. The Japanese equity market produced a return of -3.6% and was the only major region in which the equity market produced a negative return.
- The UK gilt market continues to be perceived as a safe haven and long-dated gilt-edged securities produced a return of 9.6% over the quarter. Index-linked gilts achieved a strong return over the quarter of 9.8%, whilst long-dated corporate bonds produced a return of 6.4%, despite the prices of bonds issued by financial companies continuing to be extremely volatile.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 December 2011, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 December 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	484,215	18.5	18.0
Overseas Equities	1,046,532	39.9	42.0
Bonds	647,812	24.7	20.0
Fund of Hedge Funds	209,606	8.0	10.0
Cash (including currency instruments)	51,198	2.0	-
Property	194,407	7.4	10.0
Reconciling differences and rounding	-10,914	-0.5	-
TOTAL FUND VALUE	**2,622,856**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £135m over the final quarter of 2011 to £2,623m, resulting from positive absolute investment performance. Equities were the major contributor given their allocation within the Fund and due to returns over the quarter of 8.4% and 7.2% for UK and overseas equities in particular. Long dated gilts (+9.6%) and index-linked gilts (+9.8%) were also positive contributors.
- In terms of asset allocation, there have been a number of changes over the quarter:
  - There was an increase in the holdings with RLAM. This completed in December and is a tactical holding to take advantage of the spread on yields between corporate bonds and UK gilts. This was funded by a disinvestment from the UK gilt allocation within the BlackRock Multi-Asset portfolio..
  - There was some further funding of property investment with Partners over the quarter, funded by a drawdown from the funds set aside to invest in property.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 September 2011 Value £'000	30 September 2011 Proportion of Total %	Net new money £'000	31 December 2011 Value £'000	31 December 2011 Proportion of Total %
Jupiter	UK Equities	99,784	4.0	-	106,118	4.0
TT International	UK Equities	113,368	4.6	-	125,396	4.8
Invesco	Global ex-UK Equities	149,203	6.0	-	159,421	6.1
Schroder	Global Equities	122,025	4.9	-	129,764	4.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	77,595	3.1	-	79,401	3.0
Genesis	Emerging Market Equities	121,308	4.9	-	127,334	4.9
MAN	Fund of Hedge Funds	64,657	2.6	-	62,441	2.4
Signet	Fund of Hedge Funds	63,366	2.5	-	63,048	2.4
Stenham	Fund of Hedge Funds	33,283	1.3	-	32,717	1.2
Gottex	Fund of Hedge Funds	51,603	2.1	-	51,399	2.0
BlackRock	Passive Multi-asset	1,180,349	47.4	-81,070	1,185,907	45.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	73,847	3.0	-3,745	75,350	2.9
RLAM	Bonds	135,155	5.4	81,070	220,765	8.4
Schroder	UK Property	128,641	5.2	-	128,107	4.9
Partners	Property	63,606	2.6	3,745	67,180	2.6
Record Currency Mgmt		-4,754	-0.2	-	-6,383	-0.2
Internal Cash	Cash	14,105	0.6	-	14,891	0.6
Rounding		1	0.0	-	0	0.0
TOTAL		**2,487,961**	**100.0**	**0**	**2,622,856**	**100.0**

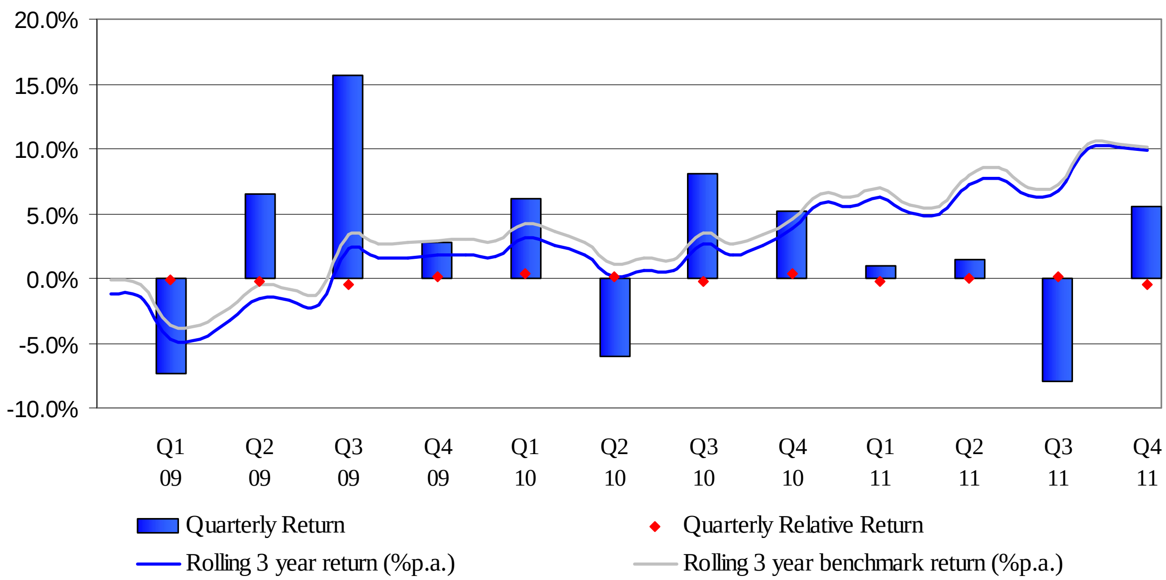
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter.

Section Four – Performance Summary

Total Fund performance

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

Total Fund absolute and relative performance



Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a return of 5.7%, underperforming the customised benchmark by0.4% (this analysis excludes the impact of currency hedging).
- Over the last year (not shown above) the total Fund's assets produced a return of -0.2%, underperforming the customised benchmark by 0.9% (this analysis excludes the impact of currency hedging).

Strategy performance

- The table on the next page shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 31 December 2011.

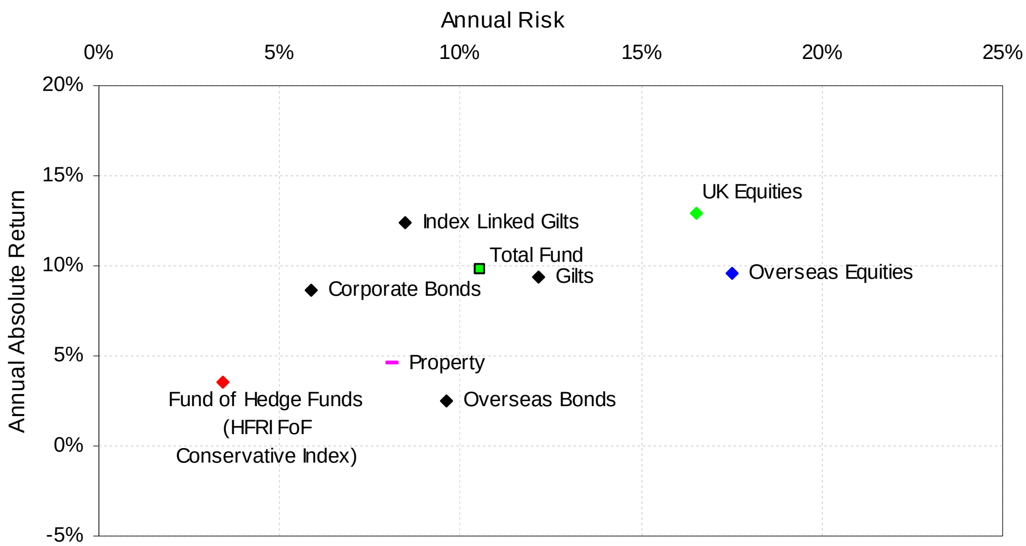
Asset Class	Weight in Strategic Benchmark	Q4 2011 (index returns)	1 year (index returns)
UK Equities	18%	8.4%	-3.5%
Overseas Equities	42%	7.2%	-6.9%
Index Linked Gilts	6%	8.4%	19.9%
Fixed Coupon Gilts	6%	5.0%	15.6%
UK Corporate Bonds*	5%	3.1%	5.4%
Overseas Fixed Interest	3%	0.0%	7.4%
Fund of Hedge Funds**	10%	0.8%	-2.1%
Property	10%	1.6%	8.1%
Total Fund	**100%**		

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

- **Market impact:** despite continued uncertainty regarding the Eurozone and Euro, markets produced positive returns following improving economic data from the US and some optimism over a resolution in Europe.
- UK and overseas equity markets produced returns of 8.4% and 7.2% respectively.
- Sterling weakened against the US Dollar and the Yen over the quarter, meaning a higher return on the US Dollar and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Euro, meaning a lower return on the Euro denominated overseas equities in sterling terms.
- Bonds generally produced strong positive returns. Longer dated gilts and index-linked gilts produced the highest returns, reflecting the expectation of a prolonged period of low interest rates. Spreads on corporate bonds widened but absolute performance was still positive.
- The allocations to fund of hedge funds and property continue to provide more steady returns, as evidenced by the one year returns, but were a drag relative to equities over the quarter.
- **Strategic Benchmark performance:** the strategy return was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately 1.5% and 3.0% respectively to the strategic benchmark return (ignoring the impact of currency hedging).
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) both contributed approximately 0.6% each.
- **Asset allocation**: a small underweight allocation to equities at the start of the quarter had a slight detrimental impact on returns. Whilst the asset allocation is broadly in line with target, property continues to be underweight as the funding of these portfolio is an on-going process.
- Market movements have meant that there is an overweight position to bonds and an underweight position to fund of hedge funds. This has been a positive contributor to returns over the quarter.
- A tactical switch of approximately 3% of total Fund assets was made from gilts to corporate bonds at the end of the quarter.

- **Overall** these effects did not have a large impact on relative performance, with much of the underperformance over the quarter being due to managers underperforming their benchmarks.
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2011 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark.
- This chart can be compared to the 3 year risk vs return managers' chart on page 15, showing that actual total Fund performance was more volatile than the benchmark total Fund Performance, due to greater volatility from some of the equity portfolios, the fund of hedge fund portfolios and RLAM compared to their respective benchmarks.

3 Year Risk v 3 Year Return to 31 December 2011



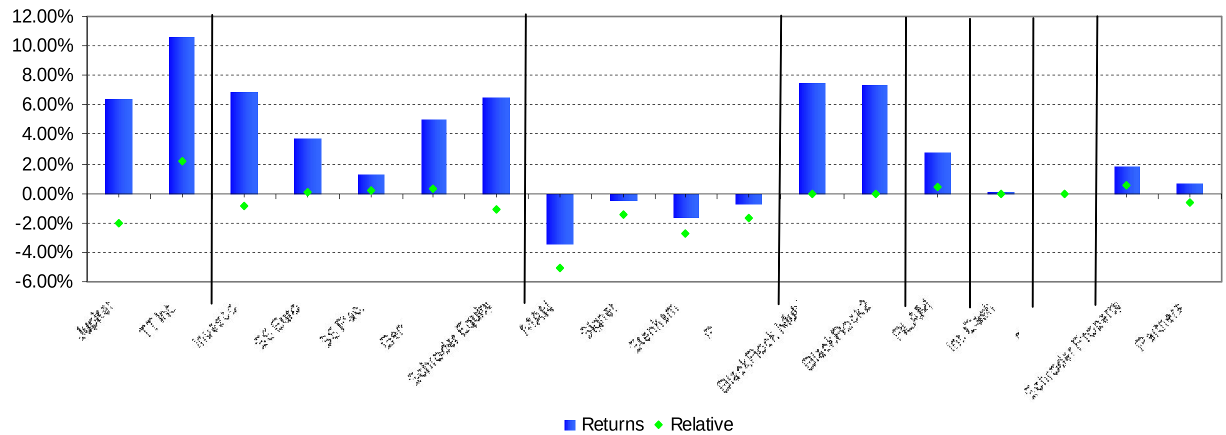
Source: Thomson Reuters. Please note, the Fund of Hedge Funds return does not include the cost of hedging currency.

- All of the underlying benchmarks have produced a positive return over the period.
- Changes to the previous quarter are driven by the impact of Q4 2008 falling out of the analysis and being replaced by Q4 2011.
- This has resulted in a significant increase in the return for equities (over 5% for UK equities) and a fall in volatility (annual risk), particularly for overseas equities. The return on index-linked gilts has also increased by a similar margin.
- The largest fall in return is from overseas bonds. The return over the 3 year period has also fallen for property.
- Overall, the Total Fund return has increased compared to last quarter and this has been generated at a lower level of risk. The position of the various asset classes is broadly as expected, although the volatility of gilts is higher than expected and has been caused by the large changes in yields experienced over the period.

Aggregate manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of December 2011. The relative quarter and one year returns are marked with green and blue dots respectively.
- Please note Partner's returns and values are lagged by a quarter. Due to timing issues there is a query, which at the time of printing has still to be resolved.

Absolute and relative performance - quarter to 31 December 2011



Absolute and relative performance - year to 31 December 2011

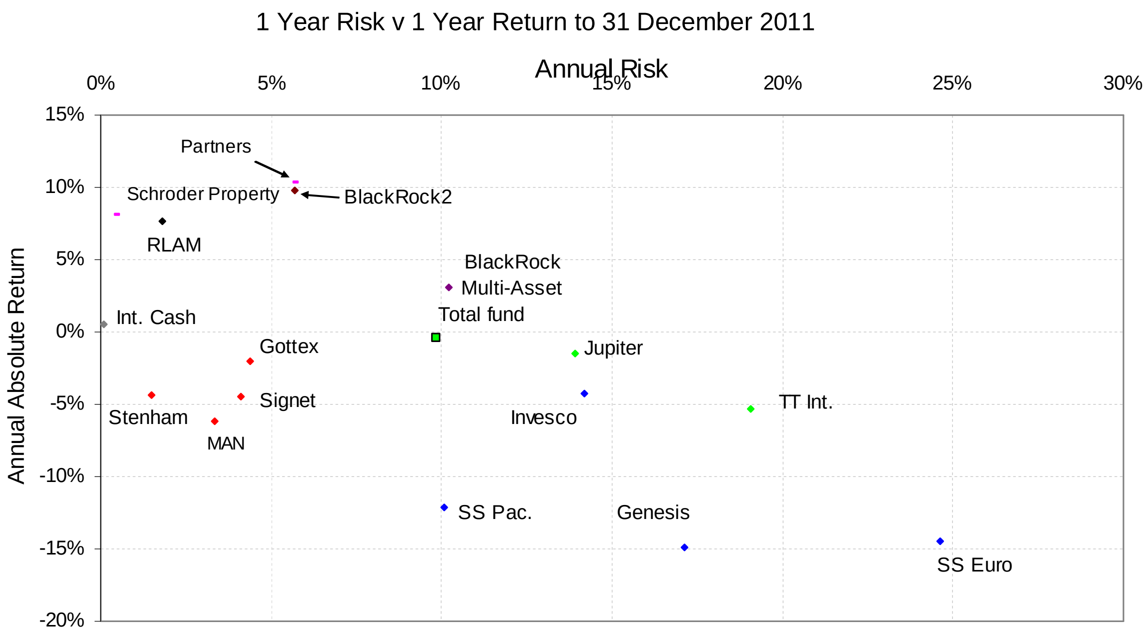
Source: Data provided by WM Performance Services

- Jupiter and TT both produced positive absolute returns over the quarter. However, Jupiter underperformed its benchmark whereas TT outperformed their benchmark. Over the 1 year period, both managers produced negative absolute returns. Jupiter outperformed their benchmark whereas TT underperformed their benchmark.
- Within overseas equities, all managers produced positive absolute performance over the quarter. SSgA Europe and SSgA Pacific marginally outperformed their respective benchmarks. Genesis outperformed their benchmark. Invesco underperformed their benchmark over the quarter.

- Disappointingly, the Fund's fund of hedge fund managers produced negative returns over the quarter and therefore underperformed their benchmarks. Absolute and relative performance was also negative over the year although returns were generally ahead of the equity managers.
- RLAM produced a positive return over the quarter, and marginally outperformed its benchmark. Over the 1 year period, performance was positive in absolute and relative terms.
- The property portfolio outperformed over the year, due to consistent positive returns from both Schroder and Partners, although over the quarter Partners underperformed the benchmark.
- Over the quarter the combined effect of the managers' performance was expected to have detracted approximately 0.4%.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2011 of each of the funds, along with the total Fund.



Source: Data provided by WM Performance Services

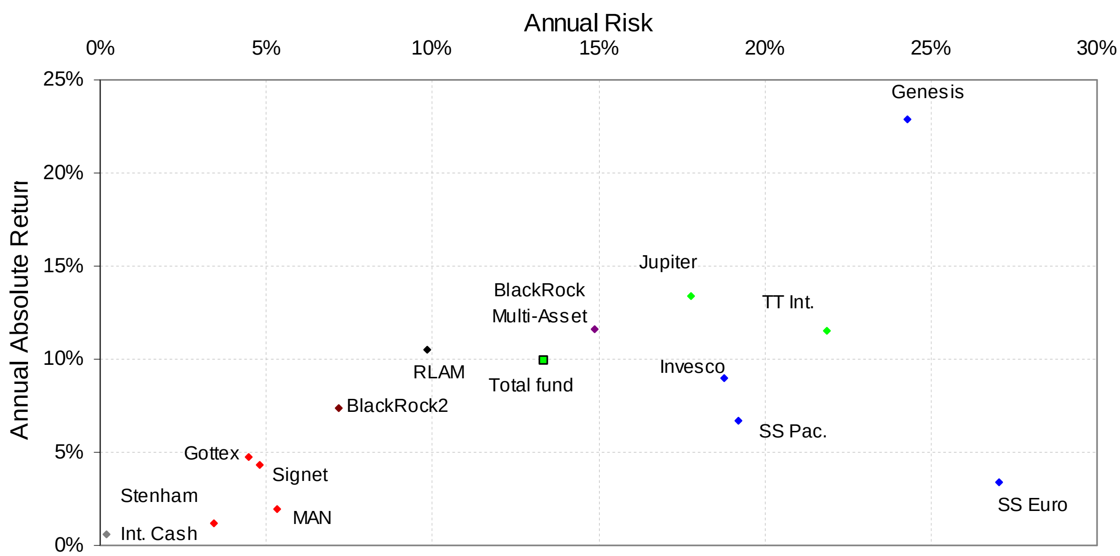
- The managers are colour coded by asset class, as follows:

- Green: UK equities	- Blue: overseas equities
- Red: fund of hedge funds	- Black: bonds
- Maroon: multi-asset	- Brown: BlackRock No. 2 portfolio
- Grey: internally managed cash	- Pink: Property
- Green Square: total Fund	

- The key changes from the previous quarter are an increase in risk for the equity portfolio, particularly TT International and the SSgA Europe portfolio, and a fall in returns from the fund of hedge fund managers.
- The Total Fund return has not changed significantly.

- The chart below shows the annualised 3 year absolute return ("Annual Absolute Return") against the 3 year annualised volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2011 of each of the funds, along with the total Fund.

3 Year Risk v 3 Year Return to 31 December 2011



Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:

- Green: UK equities	- Blue: overseas equities
- Red: fund of hedge funds	- Black: bonds
- Maroon: multi-asset	- Brown: BlackRock No. 2 portfolio
- Grey: internally managed cash	- Green Square: total Fund

- Genesis has seen an improvement in the return whilst also experiencing a reduction in risk. This is also applicable to the returns from Jupiter. Returns from TT have increased whilst risk has remained similar to last quarter. The SSgA Pacific Fund has seen a marginal decrease in the level of risk coupled with a decrease in the return.
- There has been little change to the annual risk for either BlackRock portfolio; however, the returns have increased. RLAM has also seen little change.
- Despite a poor Q4 2011, the returns from Fund of Hedge Funds have increased and the risk reduced.
- Compared to the one year chart, many of the returns are still positive, albeit exhibiting higher volatility.

Section Five – Individual Manager Performance

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

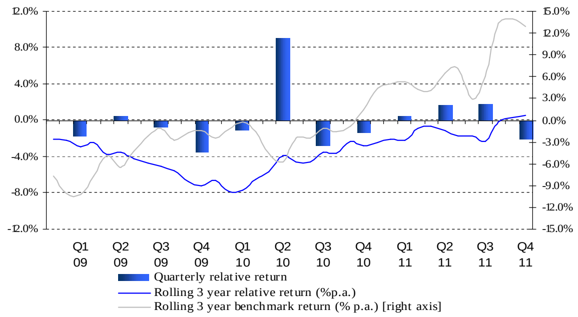
Key points for consideration

- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. We include a qualitative assessment of the Schroder global unconstrained equity manager, implemented in Q2 2011. New investment with Jupiter should continue to be subject to discussion whilst the review of the Fund's policy to SRI and ESG issues is under review.
- UK and global equity funds:
  - Jupiter underperformed their benchmark over the quarter by 2.0%.
  - TT International outperformed its benchmark over the quarter, however underperformed over the one year to 31 December 2011. The Fund continues to be overweight in Consumer Services and Basic Materials, with underweight positions to Financials.
  - The newly appointed unconstrained global equity manager, Schroder, produced a positive absolute return over the quarter, however the portfolio underperformed the benchmark.
- Non-UK Enhanced Indexation Funds: The SSgA Europe ex UK Fund and the SSgA Pacific incl. Japan equity fund both marginally outperformed their respective benchmarks. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds but negative in absolute terms.
- Enhanced Indexation: Invesco underperformed its benchmark over the quarter by 0.8%, although performance was positive in absolute terms. Over the one year performance was ahead of the benchmark by 0.9%. Performance over the 3 years was positive in absolute and relative terms. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark and therefore the longer term returns are more informative.
- Emerging Markets: Genesis outperformed their benchmark over the quarter. Performance over the longer 1 and 3 year periods also remains positive in relative terms.
- Fund of Hedge Funds:
  - Man produced a negative relative return of -5.0%, producing an absolute return of -3.4%.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 1.5%. In absolute terms, Signet produced a return of -0.5%.
  - Stenham Asset Management produced a negative relative return for the quarter, 2.7% behind their benchmark, with an absolute return of -1.7%.
  - Gottex produced the highest absolute return of all the fund of hedge fund managers, but still underperformed their benchmark over the quarter by 1.4%, producing an absolute return of -0.4%.
  - All four funds produced negative absolute and relative returns over the year in what was a tough year for hedge funds.

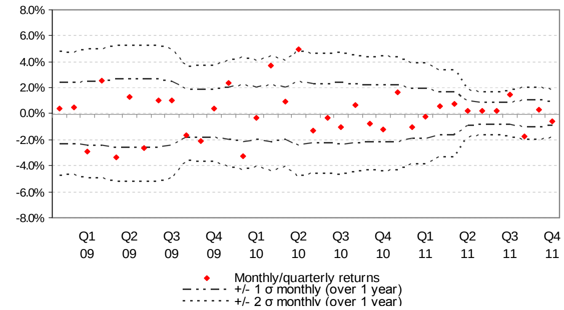
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios. Both passive funds produced positive absolute returns over the quarter and performed in line with their respective benchmarks.
- Fixed Interest: RLAM outperformed the benchmark in the last quarter by 0.4%. In absolute terms, RLAM produced a return of 2.7%. There are no notable changes in the risk profile of this fund.
- Property: Performance of the Schroder property fund over the quarter was positive in absolute and relative terms. Over the 1 year period, the Schroder property fund produced a performance of 8.1% which was ahead of the benchmark by 1.2%. The performance of Partners is now lagged by 1 quarter. As such, over the third quarter of 2011, Partners underperformed their benchmark by 0.6%, producing an absolute return of 0.7%. Once a 3 year track record is available for a meaningful proportion of the Fund's commitment with Partners, a fuller quantitative assessment will be available. For the time being, a qualitative assessment is included for this manager, as such details are not provided in the charts following.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

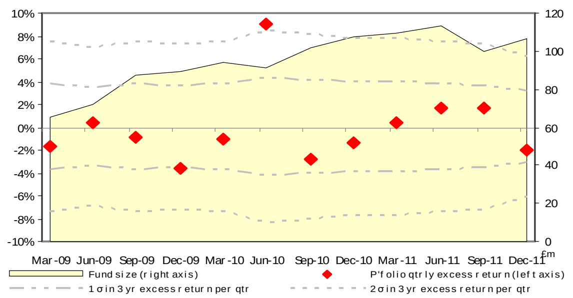
Relative returns #1



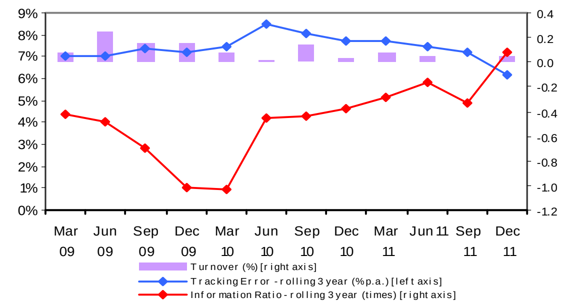
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4

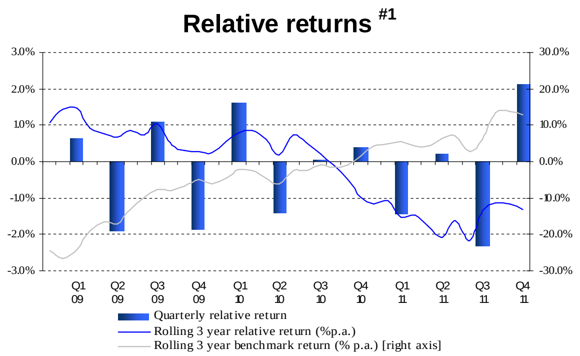


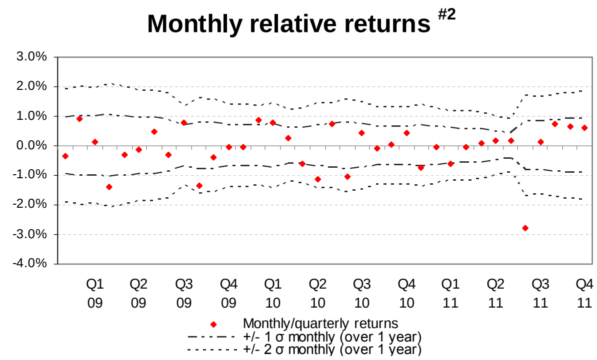
Source: Data provided by WM Performance Services, and Jupiter

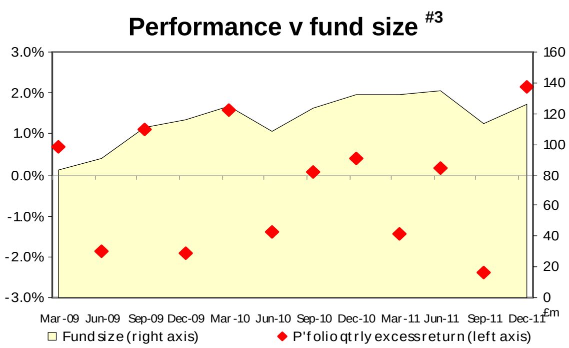
Comments:

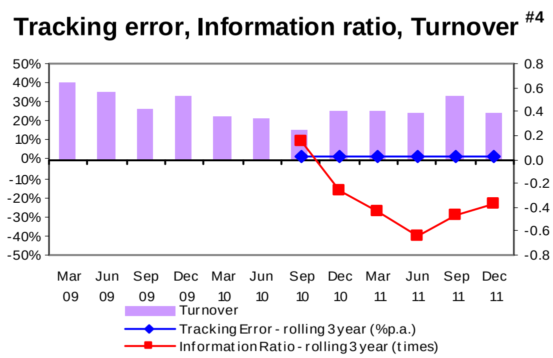
- Over the last quarter, the Fund underperformed the benchmark by 2.0%, producing an absolute return of 6.4%.
- Over the last year, the Fund outperformed the benchmark by 2.0%, producing an absolute return of -1.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 13.4% p.a. There has been a substantial change in the 3 year returns per annum compared to previous quarter primarily because the weak performance from Q4 2008 (-18.7%) falling out of the 3 year calculations.
- The Fund's allocation to Cash (6.3%) decreased marginally compared to the preceding quarter (6.5%).
- Jupiter's approach means that they will be underweight to certain industries relative to the benchmark (tobacco and mining, for example). Together with a bearish view on banks, this means they are significantly underweight to large cap stocks and also have a concentration in other sectors. Performance is therefore likely to be volatile relative to benchmark but this is a function of the mandate rather than a concern with Jupiter's management style.
- A high allocation to cash represents a defensive view and is understandable in the current economic environment. However, it will lead to underperformance during periods of market rallies, such as Q4 2011.

TT International – UK Equities (Unconstrained)









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

Comments:

- Over the last quarter the Fund outperformed the benchmark by 2.1%, producing an absolute return of 10.5%.
- Over the last year, the Fund underperformed the benchmark by 1.9%, producing an absolute return of -5.4%. Over the last three years, the Fund underperformed the benchmark by 1.4% p.a., producing an absolute return of 11.5% p.a.
- The Fund has an overweight position in Consumer Services and Telecommunications by 4.7% and 2.7% respectively, and is significantly underweight to Financials by 9.5%.
- Turnover, over the fourth quarter, has fallen back to around the 25% mark as compared to the spike the previous quarter when it increased to approximately 33%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the last few quarters. The 3 year information ratio (risk adjusted return), continued to improve very slightly from -0.5% to -0.4%.
- After a difficult 12 months to end Q3 2011, Q4 2011 has provided an improved relative return, but longer term performance is still behind benchmark.
- TT's approach dictates high (relative to other equity portfolios) turnover and this has been seen in their activity over the quarter.
- TT have acknowledged the uncertain conditions and expect them to continue, but believe there are opportunities to outperform, particularly where shares or sectors appear oversold.
- TT are taking active positions in sectors and individual stocks, as expected given their approach.
- Care should be taken to ensure looking for "cheap" stocks does not lead to buying poor quality stocks, although this does not appear to be the case as evidenced by significant underweight to financials, where they believe significant headwinds remain.

Schroder – Global Equity Portfolio (Unconstrained)

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

Portfolio update and performance over Q4 2011

The fund underperformed its benchmark by 1.1%, producing an absolute return of 6.5% over the quarter.

The final quarter of 2011 saw equities markets produce positive absolute returns however; these were not strong enough to outweigh negative returns from earlier in the year. As such over the 2011 calendar year, global equities posted negative returns.

Whilst markets had somewhat regained their appetite for risk in October, political and economic turmoil continued throughout the Eurozone. There remains some scepticism regarding the outcome of any negotiations to stave off a default of Greece. There was some encouraging news from the US toward the end of the quarter regarding their economic data, which helped equity returns.

Whilst the fund produced a positive return, it did underperform its benchmark. There were positive contributions from the information technology sector, which includes names such as Google and Samsung. Samsung was boosted by continued demand for their smartphones sales.

The main detractors from relative returns for the fund came from the consumer sectors. Within consumer staples, it was Diamond Foods driving the underperformance. The company suffered severely following news that there would be an investigation into their accounting by an internal audit committee. Their planned acquisition of Pringles from L&G is likely to suffer a long delay as a result. Schroder consequently sold this position in the portfolio.

In terms of the regional exposure in the fund, stock selection and an underweight position to Japan was beneficial to the fund's performance. The underweight position was 3.2% less than the benchmark exposure. UK financials and materials was the main contributor adding value to relative performance, with Prudential doing particularly well.

North America and Pacific ex Japan were the areas that were the main detractors to relative performance. The Fund is underweight to North America relative to the benchmark by 4.6% and overweight to Pacific ex Japan by 2.3%. Within North America the main underperformer was Diamond Foods. Energy was also negative in this region. Newcrest Mining was a key detractor in the Pacific region; the company suffered from adverse weather conditions, which caused an announcement that there would be a short-term production shortfall.

The most underweight country weightings in the portfolio are North America (-4.6%) and Japan (-3.2%). The portfolio is overweight to the Emerging Markets (+2.9%) and Pacific ex Japan (+2.3%).

In terms of sector weightings, the most underweight positions are to Telecoms (-2.9%), Utilities (-2.1%) and material (-0.9%). Overweight positions are in Consumer Staples (+3.5%), Consumer Discretionary (+1.8%) and Information Technology (+0.9%).

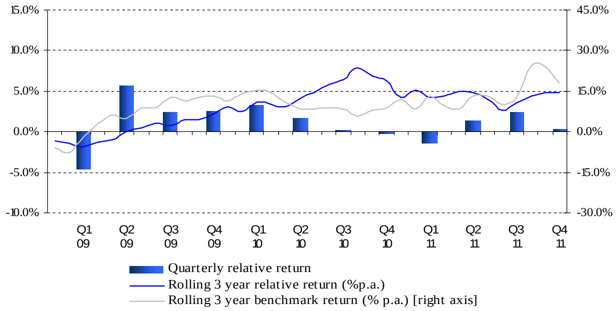
Conclusion

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

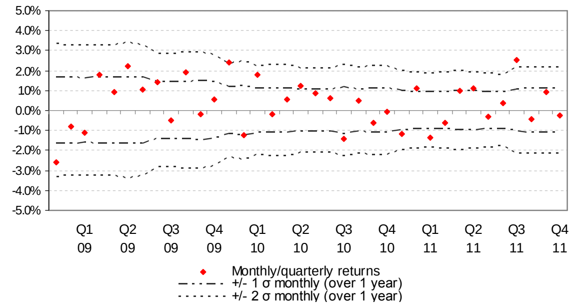
Given the outperformance target of the portfolio and the relatively unconstrained approach, it is expected that relative returns will vary over time. The returns to date should therefore not be of concern. The portfolio is taking an active view on stocks, sectors and regions which will be required both to meet its outperformance objective and to fulfil its philosophy.

Genesis Asset Managers – Emerging Market Equities

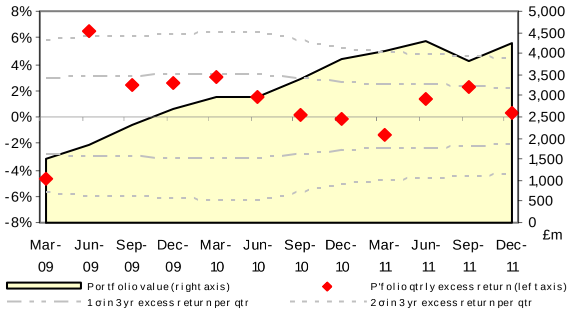
Relative returns #1



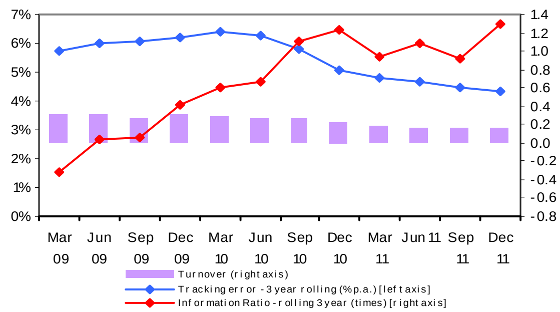
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



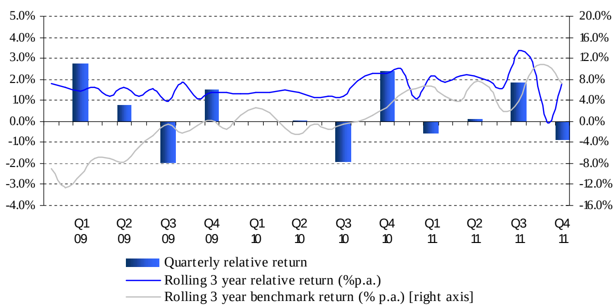
Source: Data provided by WM Performance Services, and Genesis

Comments:

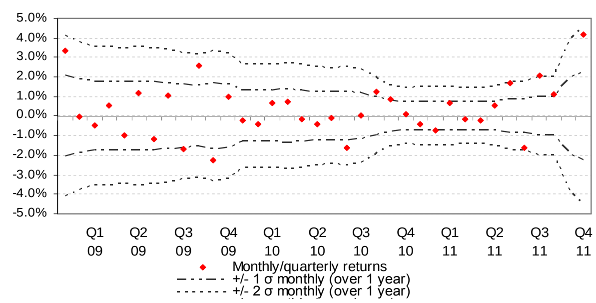
- Over the last quarter, the Fund outperformed the benchmark by 0.3%, producing an absolute return of 5.0%.
- Over the last year, the Fund outperformed its benchmark by 2.6%, producing an absolute return of -14.9%. Over the last 3 years, the Fund outperformed the benchmark by 5.5% p.a., producing an absolute return of 22.8% p.a.
- The Fund remains overweight to South Africa and India, and underweight Brazil, South Korea and China. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweight's are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The allocation to Cash (1.1%) increased marginally compared to the previous quarter (0.9%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Healthcare (+2.6%) and Financials (+1.0%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-3.9%) and Telecom Services (-2.4%).
- Genesis have consistently added value relative to the benchmark, including over the most recent period which was difficult for equities and particularly so for emerging markets.
- The tracking error has fallen slightly and remains well below levels seen in 2009. This could be viewed as Genesis looking to protect the outperformance achieved over the past few years but, more significantly, it is impressive that they have managed to outperform in an environment that is significantly different (within Emerging markets) to the period over which previous outperformance was attained.
- The reduction in risk should therefore not be of concern at this stage.

Invesco – Global ex-UK Equities (Enhanced Indexation)

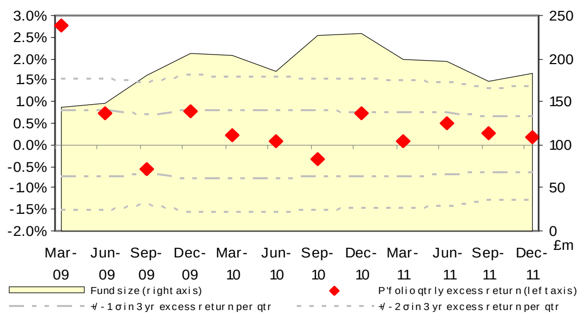
Relative returns #1



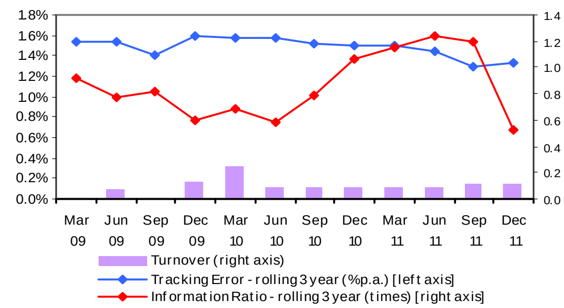
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



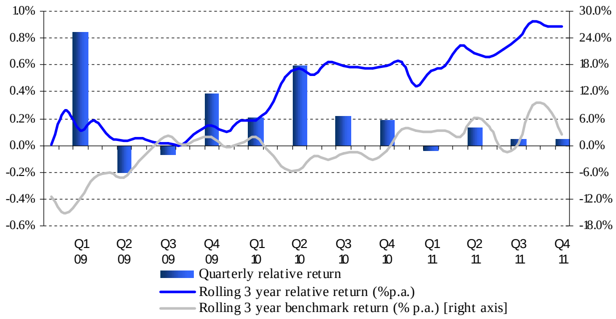
Source: Data provided by WM Performance Services, and Invesco

Comments:

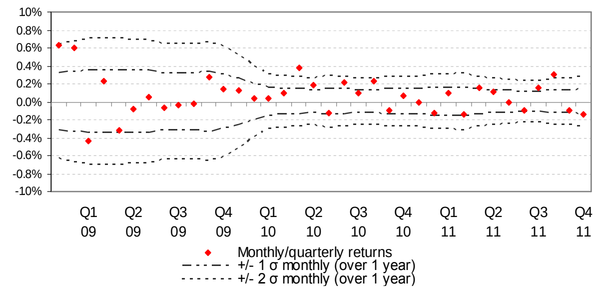
- Over the last quarter, the Fund underperformed its benchmark by 0.8%, producing an absolute return of 6.9%.
- Over the last year, the Fund outperformed its benchmark by 0.9%, producing an absolute return of -4.3%. Over three years, the Fund outperformed, by 1.1% p.a., producing an absolute return of 9.0% p.a.
- Over the last quarter, all strategies continued to be positive contributors except for Sector selection. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The turnover for this quarter of 11.2% decreased from 12.3% in the previous quarter. The number of stocks, however, marginally rose from 399 to 401.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- Quarterly relative returns can be affected by timing issues between pricing the fund units versus the benchmark. Therefore longer term performance is a more reliable indicator of whether Invesco are meeting their long term objective.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

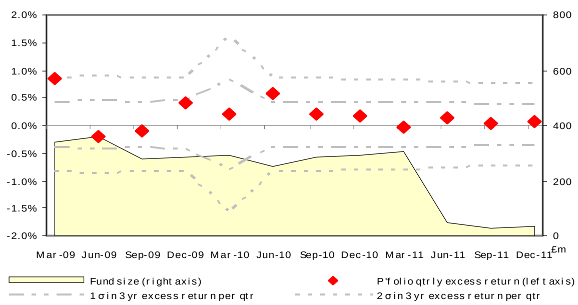
Relative returns [#1]



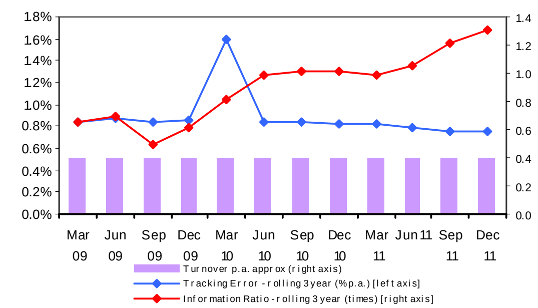
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



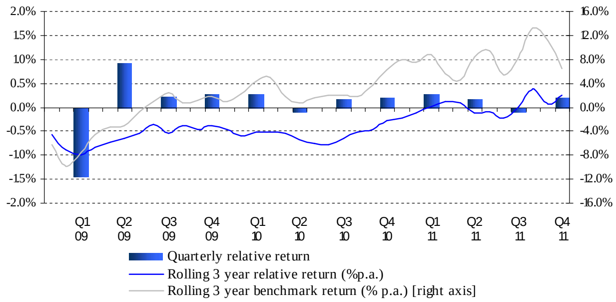
Source: Data provided by WM Performance Services, and SSgA

Comments:

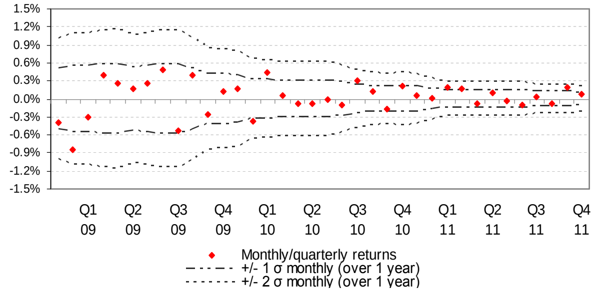
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 3.7%.
- Over the last year, the Fund outperformed the benchmark by 0.2%, producing an absolute return of -14.4%. Over the last 3 years, the Fund outperformed the benchmark by 1% p.a., producing an absolute return of 3.4% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. In the third quarter, it fell further to £30.34million. In the forth quarter, however, there has been a marginal increase of £1.1million compared to the previous quarter's fund size. These changes do not appear to have affected performance.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. As an enhanced indexation fund the magnitude of the volatility is expected to be very low and the current level is more appropriate than seen previously.
- Turnover has continued to remain consistent over the last 3 years while the number of stocks marginally increased over the quarter. The tracking error has decreased very marginally over the last quarter.
- A period of small consistent outperformance has seen a pleasing increase in the information ratio. This fund is not expected to provide shocks relative to the benchmark and therefore current risk levels are appropriate.
- As concerns over the rapid change in size of the fund recede, it can be considered suitable for new contributions or suitable for investment if rebalancing is required, although it should be discussed in advance with SSgA if the amount is significant relative to the size of the fund.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

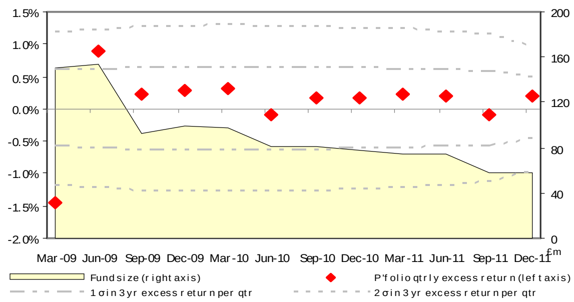
Relative returns #1



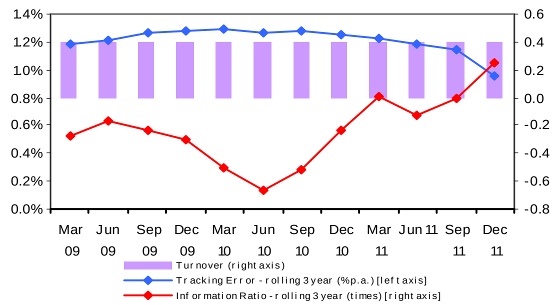
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



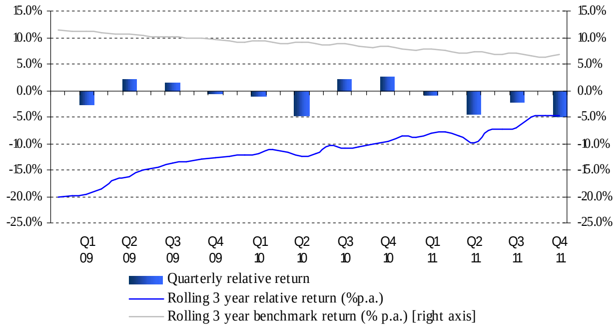
Source: Data provided by WM Performance Services, and SSgA

Comments:

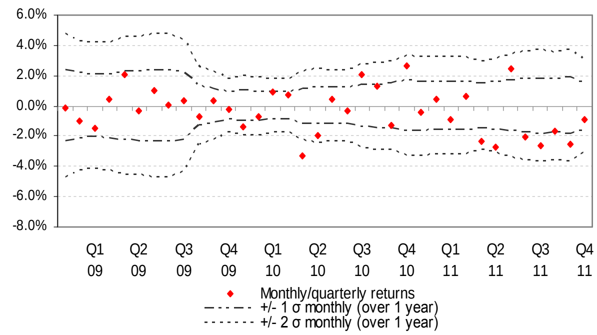
- Over the last quarter, the Fund outperformed the benchmark by 0.2%, producing an absolute return of 1.3%.
- Over the last year, the Fund outperformed the benchmark by 0.4%, producing an absolute return of -12.2%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 6.7% p.a.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- Tracking error has fallen over the year and significantly so over the last quarter. Performance has pleasingly been as expected and the small consistent levels of outperformance have led to a increase in the information ratio. However, it should be monitored carefully as to whether there is a reduction in relative returns due to the reduction in risk.
- Despite this slight concern, this fund is suitable for new contributions or suitable for investment if rebalancing is required.

MAN – Fund of Hedge Funds

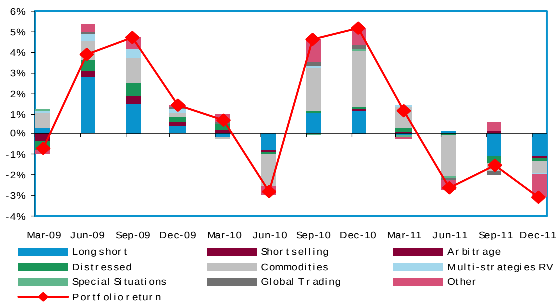
Relative returns [#1]



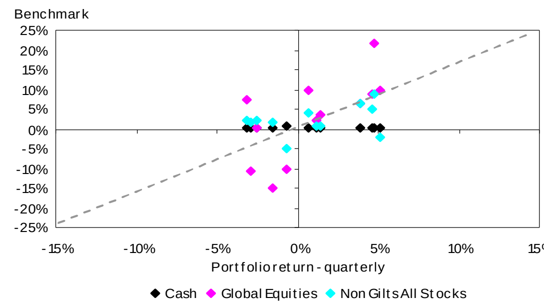
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



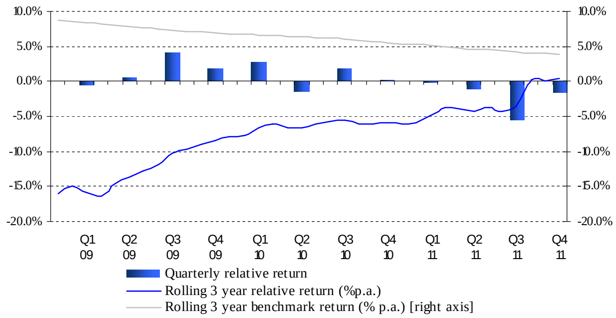
Source: Data provided by WM Performance Services, and MAN

Comments:

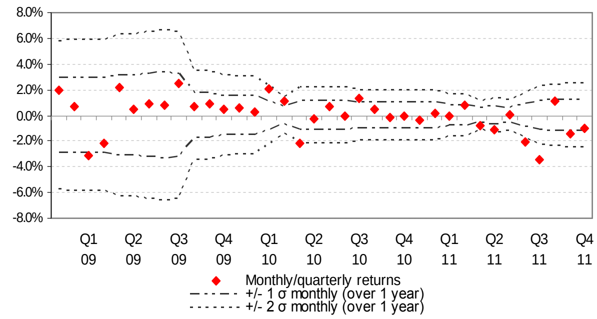
- Over the last quarter, the Fund underperformed the benchmark by 5.0%, producing an absolute return of -3.4%.
- Over the last year, the Fund underperformed the benchmark by 12.7%, producing an absolute return of -6.1%. Over the last 3 years, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of 1.9% p.a.
- The key drivers of the negative performance were the allocations to Systematic Long Term Trend, Long / Short Emerging Markets and Commodities.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.
- The Fund continues to hold a diverse exposure to hedge fund strategies, with the largest allocations to Long / Short and Commodities strategies, making up 61.6% of the fund.
- MAN's performance relative to the other fund of hedge fund managers is not unexpected in a tough environment for hedge fund strategies - as the manager with the highest outperformance target it is expected to take the highest levels of risk.
- However, the contribution from its long / short strategies is disappointing during a quarter of positive equity returns (long / short tends to be net long), albeit not unusual compared to other long short managers.
- MAN has continued to reduce the number of managers within the strategy which should, over the longer term, allow a greater chance of meeting its outperformance objective, subject of course to successful manager selection.

Signet – Fund of Hedge Funds

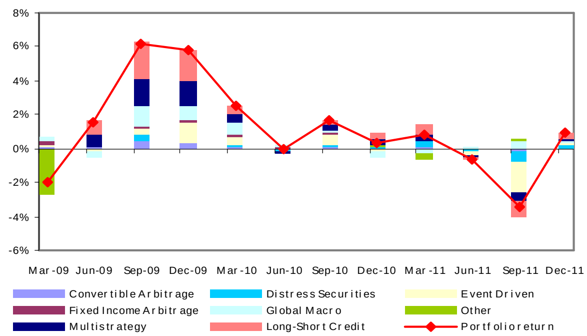
Relative returns #1



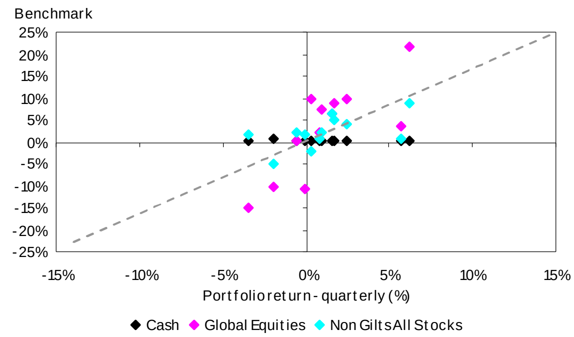
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



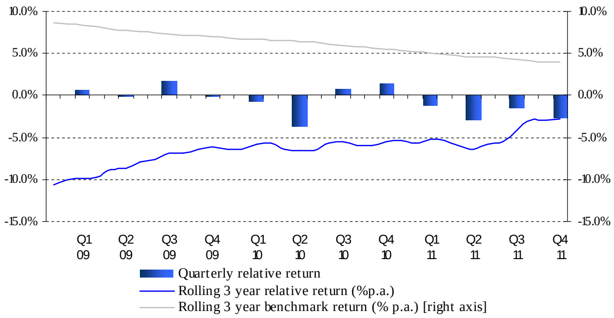
Source: Data provided by WM Performance Services, and Signet

Comments:

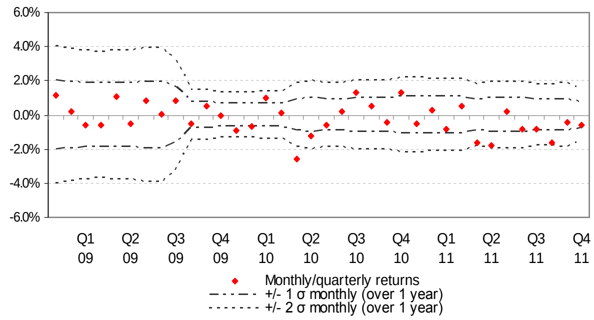
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.5%.
- Over the last year, the Fund underperformed the benchmark by 8.4%, producing an absolute return of -4.5%. Over the 3 year period, the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 4.4% p.a. There has been a substantial change in the 3 year returns per annum compared to previous quarters primarily because the weak performance from Q4 2008 (-10.8%) falling out of the 3 year calculations.
- All strategies contributed positively except for the Volatility Arbitrage strategy, Emerging Market strategy and Convertible Arbitrage strategy, which pulled total portfolio absolute returns into negative territory.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.
- Relative to other hedge fund managers, Signet's performance was more positive in terms of minimising drawdown and managing risk.

Stenham – Fund of Hedge Funds

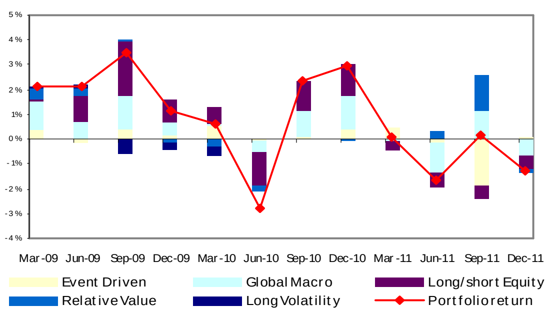
Relative returns [#1]



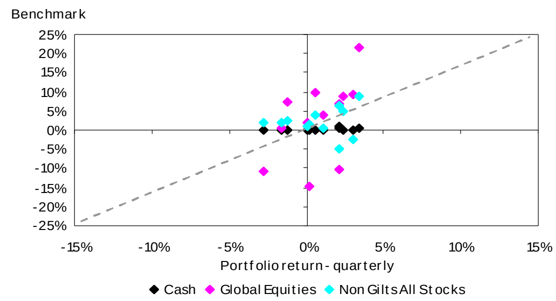
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



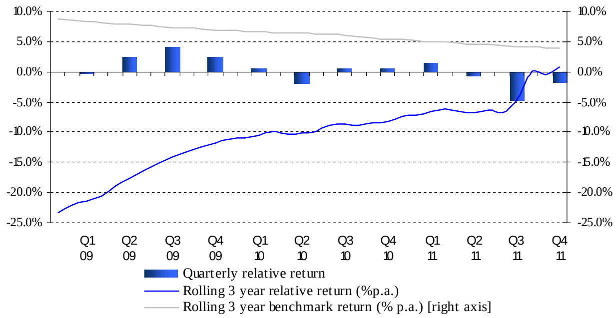
Source: Data provided by WM Performance Services, and Stenham

Comments:

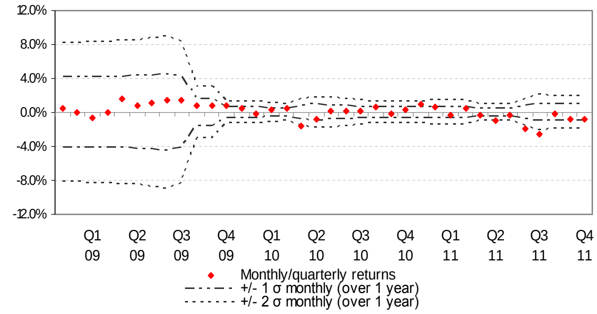
- Over the last quarter, the Fund underperformed the benchmark by 2.7%, producing an absolute return of -1.7%.
- Over the last year, the Fund underperformed the benchmark by 8.2%, producing an absolute return of -4.3%. Over the last 3 years, the Fund underperformed the benchmark by 2.7% p.a., producing an absolute return of 1.2% p.a.
- Global Macro and Relative value strategies were the largest detractors over the quarter. The only positive contributor to performance came from Event Driven Strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 65.0% of the total Fund allocation. The allocation to Cash decreased from 8.0% to 6.0% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.
- Volatility of returns have generally been lower than the other fund of hedge fund managers, which is as expected given Stenham's focus on liquidity and capital preservation.

Gottex – Fund of Hedge Funds

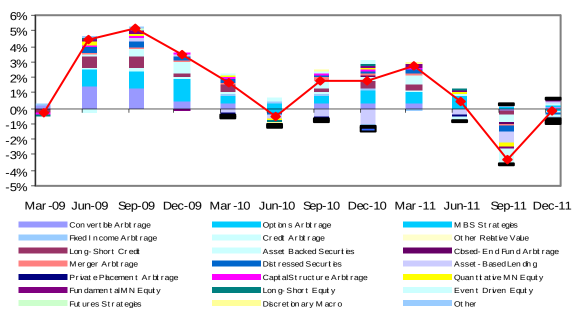
Relative returns #1



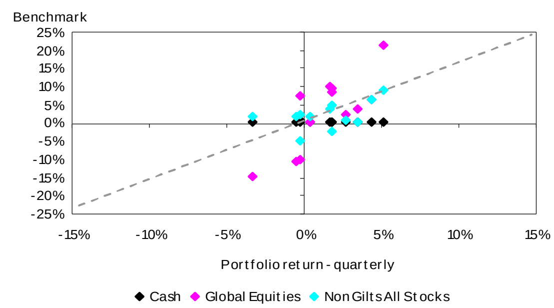
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



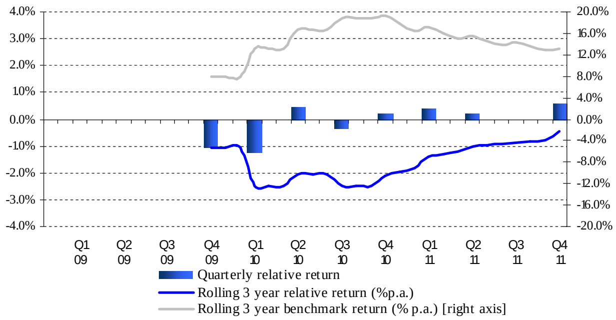
Source: Data provided by WM Performance Services, and Gottex

Comments:

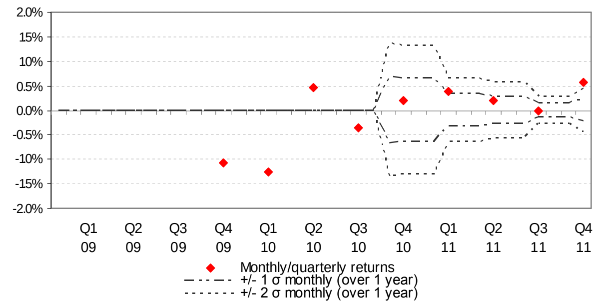
- Over the last quarter, the Fund underperformed the benchmark by 1.4%, producing an absolute return of -0.4%.
- Over the last year, the Fund underperformed the benchmark by 5.9%, producing an absolute return of -2.0%. Over the last 3 years, the Fund outperformed the benchmark by 0.9% p.a., producing an absolute return of 4.8% p.a.
- The Fund generated a negative return during the quarter. This was primarily led by Options Arbitrage strategies, Asset-Backed Securities and Asset based investing strategies. Negative performance was marginally offset by positive contribution from Mortgage Backed Securities and Fixed Income Arbitrage.
- The Fund has a diverse range of strategy exposures, with continued major exposures to MBS, ABS and Fundamental MN Equity Strategies. Allocations to Options Arbitrage strategies increased by 2.1% to 7.0% over the quarter while allocations to Fundamental MN Equity and Convertible Arbitrage strategies fell by 1.3% and 1.0% respectively.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.
- Gottex performance continues to be significantly less volatile than several years prior, as expected in a reduced leverage environment. However, underperformance has more been driven by one strategy offsetting another rather than due to a lack of opportunities or leverage.

Schroder – UK Property

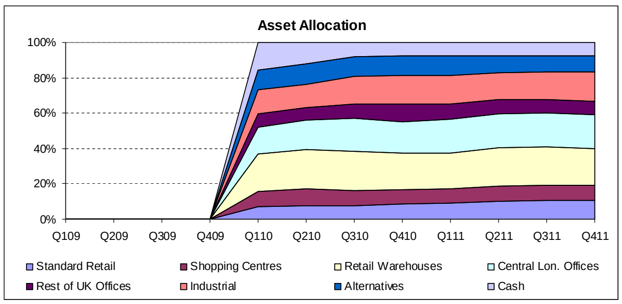
Relative returns #1



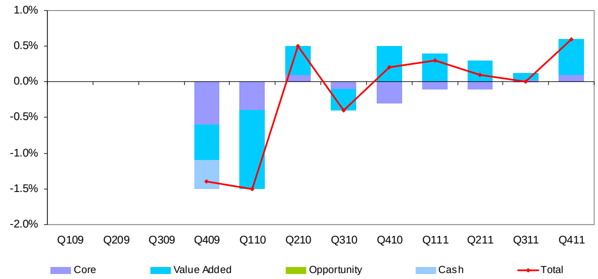
Monthly relative returns #2



Asset Allocation #5



Contribution to relative return #6



Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 1.9%.
- Over the last year, the Fund produced a return of 8.1%, outperforming the benchmark by 1.2%.
- Over the fourth quarter of 2011, the strongest contributor to relative performance came from the value add funds, which comprise 39.3% of the portfolio. The value add funds have also been the strongest contributor over the last 12 months.
- The Fund retains an overweight position, relative to the benchmark in central London offices. The Hansteen UK Investment Trust was the strongest performer at the stock level, which specialises in asset management intensive industrial properties.
- Schroder were appointed to manage UK Property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Despite the illiquid nature of property investment, Schroder has been able to position the portfolio relative to the benchmark according its views and has been able to produce consistent outperformance.

Partners – Overseas Property

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

Portfolio update

To date, Partners have drawn down approximately £65 million, or approximately 49.4% of the Fund's intended commitment of approximately £134 million. A total of £5.91 million was drawn down over the quarter. The draw downs commenced in September 2009.

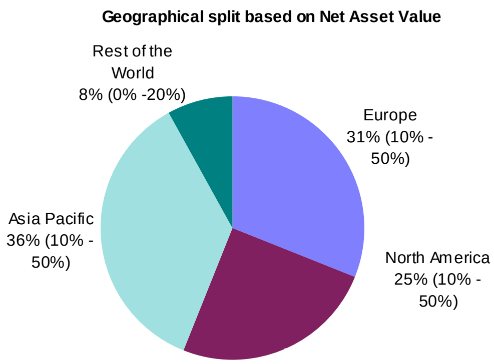
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

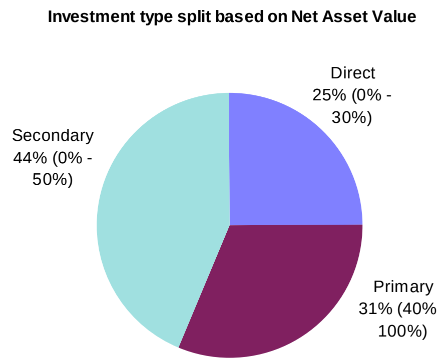
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 December 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.68	10.62
Direct Real Estate 2011	2.69	2.53
Distressed US Real Estate 2009	11.65	11.85
Global Real Estate 2008	25.50	25.97
Global Real Estate 2011	7.16	6.70
Real Estate Secondary 2009	8.77	9.51
Total (£)	**65.46**	**67.18**

Source: Partners. Please note, whilst the valuation on page 14 is as at 30 September 2011 (adjusted for cash flows), the above is Partners' valuation as at 31 December 2011.

The investments in the funds noted above have resulted in a portfolio that was, as at 31 December 2011, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

Changes to the geographical allocation to the portfolio over the quarter include a decrease to Europe from 32% to 31%, to North America from 26% to 25% while the rest of the world allocation remained at 8%. The exposure to the Asia Pacific region has increased from 34% to 36%.

In terms of the portfolio allocation by investment type, the exposure to primary investments has increased from the position last quarter from 30% to 31%. The exposure to secondary investments has decreased from 45% to 44%, while the exposure to direct investments remained constant at 25%.

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

Performance over Q4 2011

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

Distributions since inception total £6.72m, with £2.11m distributions over the most recent quarter.

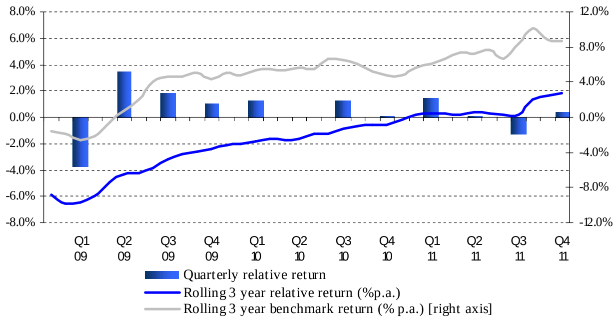
Conclusion

Over the quarter, Partners increased the amount drawn down by £5.91 million. There have been some changes to the asset allocations and the geographical split; however, these are at present due to the draw-downs from the amounts committed. There have been no further changes to the guidelines, and those implemented in October 2010 remain in place.

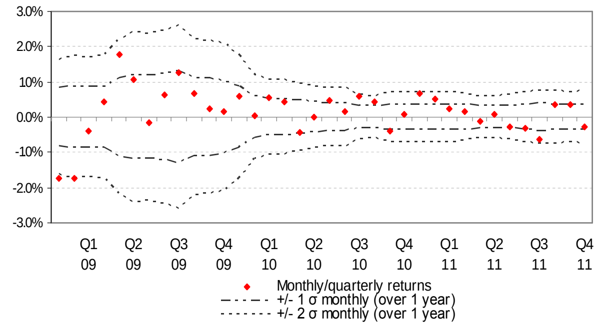
We have no concerns with Partners. They appear to building the portfolio in a diversified manner thus not exposing the Fund to any one region or type of property investment.

Royal London Asset Management – Fixed Interest

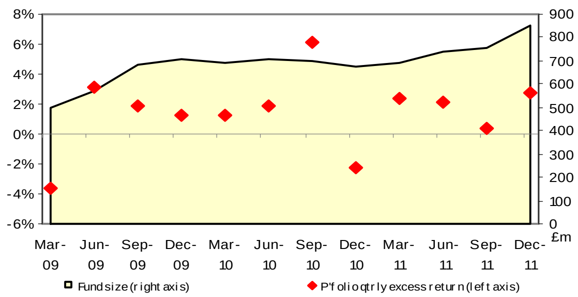
Relative returns [#1]



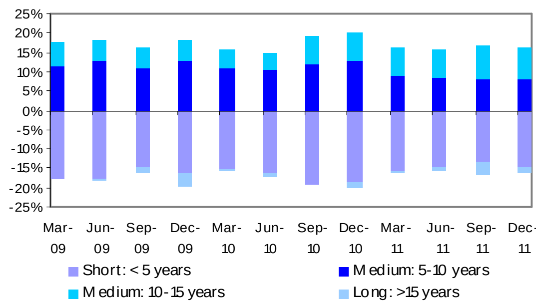
Monthly relative returns [#2]



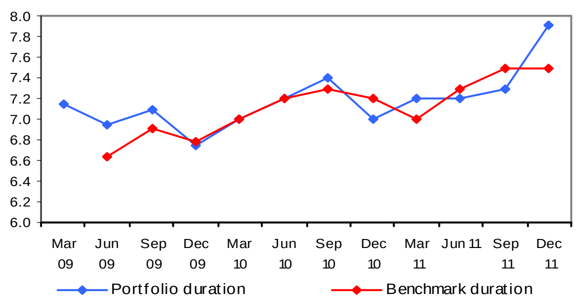
Performance v fund size [#3]



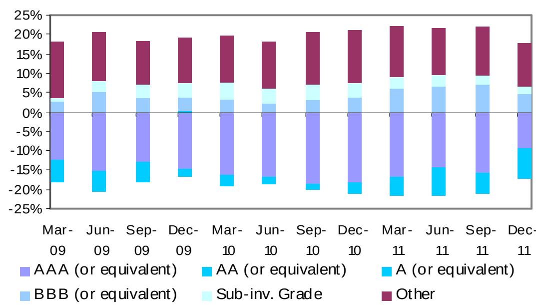
Relative Maturity exposure [#8]



Duration [#10]



Relative Ratings exposure [#9]



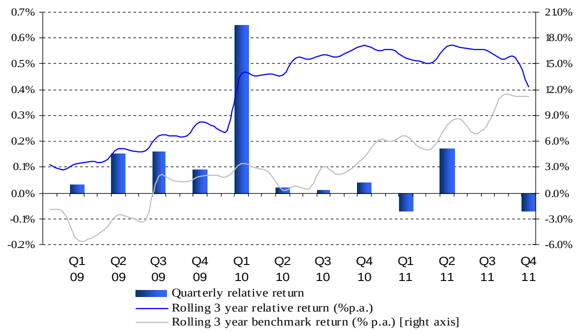
Source: Data provided by WM Performance Services, and RLAM

Comments:

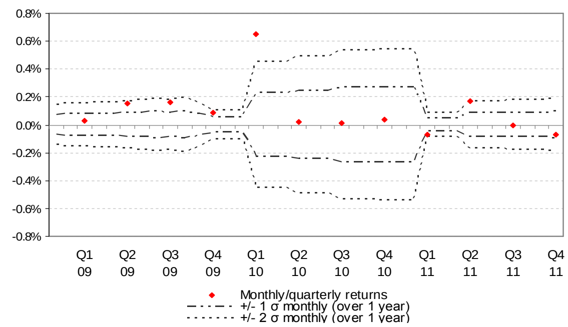
- Over the last quarter, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 2.7%.
- Over the last year, the Fund outperformed the benchmark by 0.7%, producing an absolute return of 7.6%. Over a rolling 3 year period, the Fund outperformed the benchmark by 1.8% p.a., producing an absolute return of 10.5% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Intra month volatility is greater than that implied by quarterly relative performance. This is expected from an active corporate bond manager and is not cause for concern.
- The active approach means that RLAM will look to identify good quality companies through superior research. The high relative allocation to lower and unrated bonds at the expense of, higher quality, AAA or AA bonds should not be of concern.
- Portfolio duration has remained close to the benchmark duration. This is not expected to be a material source of return and is therefore as expected.

BlackRock – Passive Multi-Asset

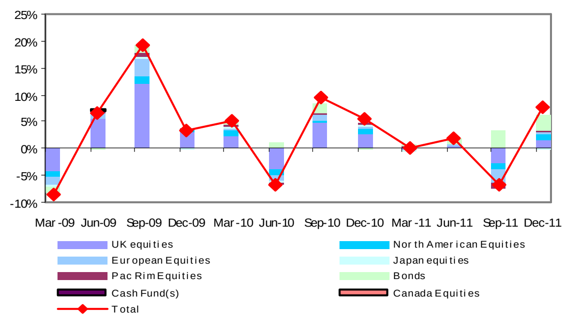
Relative returns [#1]



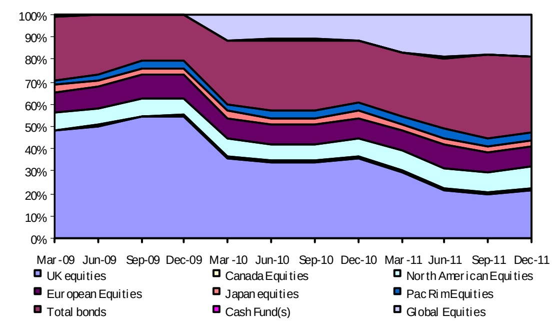
Monthly/Quarterly relative returns [#2]



Contribution to absolute return [#6]



Asset Allocation [#5]



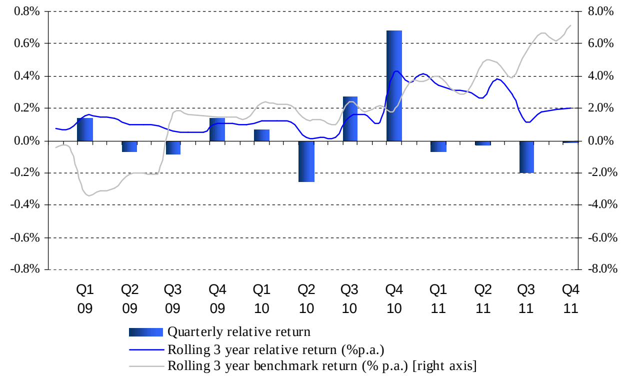
Source: Data provided by WM Performance Services, and BlackRock

Comments:

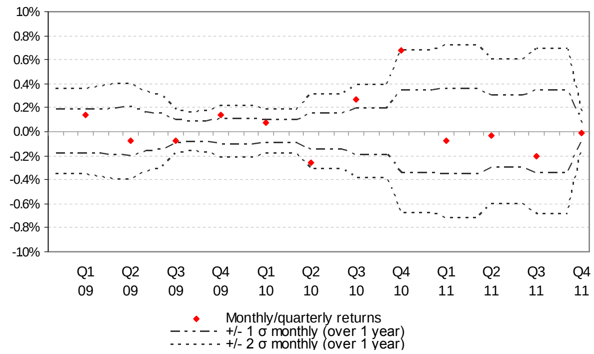
- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 7.5%.
- Over the last year, the Fund performed in line with its benchmark, producing an absolute return of 3.1%. Over the last 3 years, the Fund underperformed the benchmark by 0.2% p.a., producing an absolute return of 11.7% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.
- There has been a fall over the quarter to the allocation to bonds and subsequent rise in the other asset classes. This is primarily as a result of the tactical switch from gilts to corporate bonds, the latter of which are managed by RLAM.

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

Relative returns #1



Monthly relative returns #2



Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund performed in line with its benchmark, producing an absolute return of 7.3%.
- Over the last year, the Fund produced a return of 9.8%, underperforming the benchmark by 0.3%. Over a rolling 3 year period, the Fund produced an absolute return of 7.3% p.a., outperforming the benchmark return by 0.1%.
- Over the quarter the Fund's relative holding in cash, UK equities futures and US equity futures increased, and the relative holdings in UK gilts decreased. This is as a result of the Fund selling down £5m of UK gilts to raise cash to invest in the property portfolio.
- Tracking of this portfolio relative to the benchmark remains within expected tolerance ranges.

Appendix A – Market Events

UK market events – Q4 2011

- **Quantitative Easing:** The Bank of England's quantitative easing program remained at £275 billion following the increase of £75 billion in October.
- **Government Debt:** At the end of December 2011 UK national debt stood at £1.004 trillion, or 64.2% of Gross Domestic Product.
- **Unemployment:** Britain's unemployment rate spiked to 8.4% in November 2011, its highest level since 1996. The Office for National Statistics also said there were 2.7 million people out of work in the three months from September to November. This is the highest figure since 1994.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey, increased to a seasonally adjusted figure of 49.6 in December, up from a revised reading of 47.7 in November. This was the third successive month below 50. A figure that is below 50 is believed to indicate a contraction in activity. The average PMI reading in Q4 2011 was the weakest since Q2 2009.
- **Inflation:** CPI annual inflation fell from 4.8% in November 2011 to 4.2% in December 2011. RPI annual inflation fell from 5.2% in November 2011 to 4.8% in December 2011. The drop in the CPI rate was the biggest monthly fall since April 2009, and the lowest rate since June 2011. The figures reflected a 2.8% drop in the price of clothing and footwear as retailers cut prices to attract customers in the run-up to Christmas. However, food prices rose by 1.4%, despite recent fierce competition between the main supermarket chains.
- **Gross Domestic Product ("GDP"):** In the fourth quarter of 2011 GDP declined by 0.2%. Output of the production industries decreased by 1.2% in Q4 2011, compared with an increase of 0.2% in the previous quarter. The Construction sector output decreased by 0.5% in Q4 2011, compared with an increase of 0.3% in the previous quarter.
- **Interest Rate:** The Bank's Monetary Policy Committee voted on January 12, 2012 to maintain the interest rates at a record low of 0.5%, which has been at this level since March 2009.

Europe market events – Q4 2011

- **European sovereign debt crisis:** Europe has been plunged into a fresh crisis after France was stripped of its coveted AAA credit rating in a mass downgrade of nine Eurozone countries by the ratings agency Standard & Poor's. S&P said austerity was driving Europe even deeper into financial crisis as it also cut Austria's triple-A rating, and relegated Portugal and Cyprus to junk status. The humiliating loss of France's top-rated status leaves Germany as the only other major economy inside the Eurozone with a AAA rating, and rekindled financial market anxiety about a possible break-up of the single currency.
- **Italy:** Italy brought a glimmer of festive cheer to the markets late in December with a debt auction that saw its short-term borrowing costs fall by half. The sale of bills and bonds was the first big test of market sentiment since the European Central Bank provided Eurozone lenders with a €489 billion liquidity injection on 21 December 2011. Italian banks reportedly took up more than €100 billion of the ECB's three-year loans. The results of the auction suggested the offering had made a big impact on the readiness of lenders to buy sovereign debt. The rate on €9 billion of six-month treasury bills

plunged to 3.25% from 6.5% the last time that securities of a similar maturity were auctioned in November 2011. Demand outstripped supply in a ratio of 1.7 to one, compared with 1.5 last month.

- **Greece:** Greece faces its most difficult challenge since the second world war after the unexpected collapse of talks over a debt swap deal with its private creditors in January, the country's finance minister, Evangelos Venizelos, said. Discussions over the deal – key to keeping default at bay and unlocking a second €130 billion (£108 billion) aid package for Greece – stalled when it became apparent that neither side could bridge their differences over interest rates on the new bonds. The accord aims to slice €100 billion from Athens' increasingly unsustainable debt pile by inducing private investors that include banks and insurers to voluntarily accept 50% losses in the value of their Greek government holdings.
- **Spain:** Spain's new government announced in late December that the country's budget deficit is higher than it was previously thought as it announced a new package of spending cuts and tax increases designed to conform to the Eurozone's austerity pact and fend off attack by international financial markets. The principal measure comes in the form of an €8.9 billion budget cut spread across all government departments. There are also across-the-board income tax increases and for home-owners, a one-year freeze on public sector salaries, a freeze on the minimum wage of €641.40 a month and cuts in subsidies to trade unions and political parties. Pensions will rise and the cut-off point for unemployment benefit is to be extended for a further six months.
- **France:** Nicolas Sarkozy promised a last-ditch rush of economic reforms after France's credit rating downgrade was slammed by his political opponents as the mark of failure of his financial policy. As markets brace themselves for a potentially decisive new stage of the Eurozone crisis in the wake of the mass downgrade of single currency members, the beleaguered French president promised to unveil a set of "important decisions" before the end of January and tried to bolster the depressed national mood. Three months before the first round of the presidential election, the loss of France's AAA rating in a downgrade by Standard & Poor came as a blow to Sarkozy, who was already suffering from record unpopularity and facing a tough re-election battle. Faced with very high public debt, low growth, high unemployment and looming recession, the French government pushed through two belt-tightening plans in the course of four months last year, with measures that were less severe than British austerity cuts and focused more on raising taxes.
- **Unemployment:** The EU27 unemployment rate was at 9.9% in December 2011, 0.1% higher compared with October 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (4.1%), the Netherlands (4.9%) and Luxembourg (5.2%), and the highest in Spain (22.9%), Greece (18.8% as at September 2011) and Lithuania (15.3% as at September 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI rose to 48.8 in December 2011 from 47.0 in November 2011, the highest in 3 months. Manufacturing PMI marginally rose to 46.9 from 46.6 in November 2011, a 28-month low. Services PMI rose to 48.8 from 47.5 in November 2011.
- **Inflation:** The inflation rate in the Euro area fell from 3.0% in November to 2.7% in December 2011. This reading is below the initial estimate of 2.8% but still above the ECB's target of 2.0%.
- **GDP:** GDP growth for the fourth quarter was not available at the time of writing, although for the third quarter of 2011, this was 0.2%.
- **Interest Rate:** The European Central Bank cut interest rates by a quarter of a point in December to counter the twin threats of recession and deflation in the Eurozone. This rate cut bought the interest rates back to a record low of 1.0%.

US market events – Q4 2011

- **Unemployment:** The rate of unemployment in the US decreased from 9.1% in September 2011 to 8.6% in December 2011. Nonfarm payroll edged up by 200,000 in December 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.4% in December after having fallen 0.3% in November. For the fourth quarter as a whole, industrial production rose at an annual rate of 3.1%, its 10th consecutive quarterly gain. In the manufacturing sector, output advanced 0.9% in December.
- **Inflation:** The US CPI rate decreased from 3.9% in September 2011 to 3.0% in December 2011.
- **GDP:** US real GDP increased by 2.8% over the fourth quarter of 2011, against a 2.5% increase in the third quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q4 2011

- China's import growth showed an unexpectedly sharp drop in December in a new sign that the world's second-largest economy is slowing. December growth in imports fell to 11.8%, just over half the previous month's 22.1% gain, showed by customs data. Exports rose 13.4%, down slightly from November's growth rate. The country's politically sensitive global trade surplus widened to $16.5 billion (£10.7 billion). The widening of China's trade surplus from $14.5 billion in November might fuel strains with the United States and other trading partners. They complain Beijing is hampering access to its markets, hurting foreign companies at a time when governments worldwide are trying to revive growth and generate new jobs.
- Foreign investment in China fell nearly 13% in December, from a year earlier, in the latest evidence of the rising toll that weakness in the west is taking on the economy. Foreign direct investment covers spending on physical assets such as factories and does not include financial assets such as stocks.
- The beleaguered Indian government has been forced to suspend its decision to allow international supermarkets to invest in India's £300 billion retail market in the face of political opposition. Finance minister Pranab Mukherjee, one of the most senior members of the ruling centre-left Congress party, was reported to have told leaders of both rightwing and communist opposition parties that the government would postpone the implementation of the move to allow global companies such as Walmart, Tesco and Carrefour into India until more people were convinced of its merits.
- Brazil has overtaken the UK to become the world's sixth-largest economy, according to a team of economists. The banking crash of 2008 and the subsequent recession has relegated the UK to seventh place in 2011, behind South America's largest economy, which has boomed on the back of exports to China and the far east.

Global summary

Economy

- The rate of CPI inflation fell from 5.2% to 4.2% during the period under review and is expected to fall further over the coming months. The Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% throughout the quarter and in October, it announced an extension to its policy of quantitative easing, increasing the size of its asset purchase programme by £75 billion to a total of £275 billion. The programme is expected to be completed in February 2012.
- UK retail sales were boosted by a Christmas rush, according to the British Retail Consortium ("BRC"). Despite the pre-Christmas rush, retailers reported very different results with Tesco and Argos reporting a fall in UK sales and John Lewis and Morrisons reporting a rise in sales. Stephen Robertson, Director General of the BRC said, "a better than hoped-for December closed a relentlessly tough year for retailers, but these figures hinged on a dazzling last pre-Christmas week and were boosted by some major one-off factors."
- The Office for National Statistics ("ONS") confirmed unemployment rose to a 17 year high of 2.68m and the number of people working part-time because they could not find full-time jobs reached a record high. Unemployment rose by 118,000 between September and November, taking the unemployment rate to 8.4%.
- The European Central Bank ("ECB") reduced interest rates (by 0.25%) at both its November and December meetings, from 1.5% to 1.0%. The US Federal Reserve kept interest rates on hold at 0.25%. During the quarter the US Federal Reserve, the ECB and the central banks of the UK, Switzerland, Canada and Japan agreed to provide loans to banks, as it became apparent that Europe's banks were struggling to roll over $2 trillion of loans denominated in US Dollars as a consequence of liquidity in the interbank markets falling sharply.
- The sovereign debt crisis facing the Eurozone continues to be extremely challenging, both politically and economically. The cost of borrowing for countries such as Italy and Spain remains a political "hot potato" because the ECB does not have the power to guarantee bonds issued by member countries; a power that would limit speculation and depress bond yields.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Concerns about the ongoing crisis in the Eurozone have resulted in the Euro falling to its lowest level against the US Dollar for 16 months.
- The Greek government remains in negotiations with the EU regarding the second instalment of the bailout package that was agreed in principle in October.

Equities

- Global equities largely ended the year with a positive quarter despite the ongoing sovereign debt crisis in the Eurozone and severe volatility over year that has seen indiscriminate selling across stocks. The fourth quarter saw a reversal in market sentiment driven by company fundamentals rather than macro economic factors driving events.

- The FTSE-All Share Index produced a return over the quarter of 8.4% and Europe equities achieved a return of 3.3%, due to a belief that the markets have priced in the ongoing sovereign debt crisis in the Eurozone. US equities were the strongest performing of the major equity markets producing a return of 11.9% as evidence emerged that the economy was growing at a faster rate than had been forecast. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of 4.4% and 4.2% respectively. The Japanese equity market produced a return of -3.6% and was the only major region in which the equity market produced a negative return.

Fixed Interest

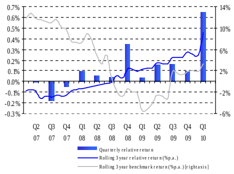
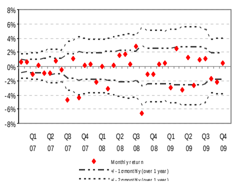
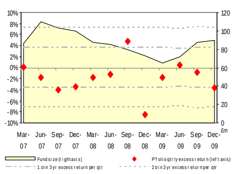
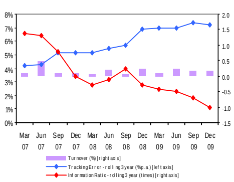
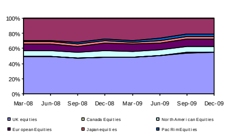
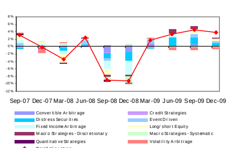
- The UK gilt market continues to be perceived as a safe haven and long-dated gilt-edged securities produced a return of 9.6% over the quarter. Index-linked gilts achieved a strong return over the quarter of 9.8%, whilst long-dated corporate bonds produced a return of 6.4%, despite the prices of bonds issued by financial companies continuing to be extremely volatile.
- Gilt yields continued to fall amid the "flight-to-quality", caused by the continued uncertainty in the European bond markets. Spanish and Italian bond yields continued to remain at a relatively high level over the quarter and as negotiations continued over the second bailout of the Greek economy.

Alternative Asset Classes

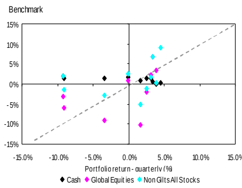
- Commodities produced a 9.2% return over the quarter, reversing the losses achieved in the third quarter and linked to the belief that the US economy was growing faster than had been forecast. High Yield achieved a positive return of 5.6% over the quarter.
- Commercial property continues to produce a positive return that is mainly driven by income from better quality properties, such as offices in central London. Poorer quality assets not in prime locations are suffering and prices, rents and future income is expected to fall as hopes of an economic recovery fade.
- Hedge funds produced an average return of 0.8%, disappointingly underperforming equities over the quarter. Many hedge fund managers have seen severe losses due to the sovereign debt crisis facing the Eurozone.

Appendix B – Glossary of Charts

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

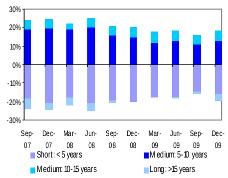
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year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

#7



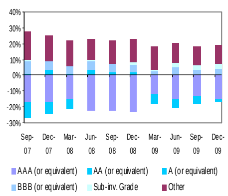
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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

#8



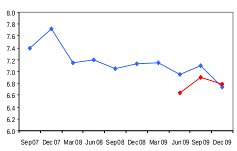
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9



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

#10



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

Appendix C – Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+3.5-4.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

JLT Investment Consulting

St James's House, 7 Charlotte Street
Manchester, M1 4DZ
Fax +44 (0) 161 253 1169

CONTACTS

John Finch
JLT Investment Consulting
Tel: +44 (0) 0161 253 1168
Email: john_finch@jltgroup.com

Jignesh Sheth
JLT Investment Consulting
Tel: +44 (0) 0161 253 1154
Email: jignesh_sheth@jltgroup.com