Review
for period to 30 June 2010

Avon Pension Fund

JLT BENEFIT SOLUTIONS

Avon Pension Fund

Contents

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Section One - Executive Summary

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

Highlights

- The total Fund's assets fell in value by £149m over the second quarter of 2010, to £2,305m as at the end of June 2010.
- Over the last quarter the total Fund's assets produced a negative absolute investment return of -6.1%, outperforming the customised benchmark by 0.1%. Over the last year, the Fund produced a return of 18.6%, which was ahead of the customised benchmark return of 18.4%. Over 3 years, the Fund has produced a return of 0.1% p.a., underperforming the customised benchmark by 0.9% p.a.
- The absolute performance over the quarter was driven by the majority of managers producing negative absolute returns, in particular the equity and hedge fund managers. The returns from the equity funds were the most disappointing, as equity markets were unsettled by fears of a double dip recession. The assets invested in bonds and property produced positive absolute returns.
- Over the year performance remains positive, however the one year return has reduced following the negative return witnessed over the last quarter.
- The small relative outperformance over the quarter resulted from the outperformance of a number of the managers, in particular Jupiter, Genesis, SSgA (Europe and Pacific Rim) and Schroder. The assets with BlackRock, Invesco and RLAM performed broadly in line with their benchmarks. The overall outperformance was achieved despite underperformance from TT, Gottex, Lyster Watson, MAN, Signet, Stenham and Partners.
- There were no significant changes to the Fund's asset allocation during the quarter besides those driven by market movements.
- In May 2010 Jupiter successfully listed on the London Stock Exchange, valuing the firm at £755million.
- In May 2010 GLG Partners announced that it had agreed to be acquired by Man Group plc, through a cash and share exchange, subject to Board and regulatory approval. Shareholders are now invited to vote on the proposal with the outcome of the vote expected 1 September 2010. The acquisition is expected to complete in September 2010. Further news also emerged over the quarter when it was announced that Luke Ellis, a managing director at fund of funds firm Financial Risk Management ("FRM"), also a non-executive chairman of GLG Partners, will join Man Group plc when the proposed acquisition of GLG by MAN either closes or terminates.

Conclusion

- **Strategic allocation:** The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. We have identified no causes for concern with this strategy outside of the areas that are currently being discussed and progressed by the Investment Panel. We note that the Invitation to Tender stage of the Fund's search for a global equity investment manager closed on 11 August 2010, and the assessment of submissions received is currently underway.
- **Manager Performance:** We have identified no areas of significant concern regarding the managers. However, we note that the SRI constraints on Jupiter may be at the cost of continued underperformance relative to the benchmark (notwithstanding that their performance over the last quarter has been very strong in relative terms) and continued volatility from this investment. This links in to wider considerations regarding the Fund's approach to Socially Responsible Investment which will be reviewed in the near future. The continued underperformance of MAN, although not of significant magnitude on a quarterly basis, should be considered when the fund of hedge fund investments are reviewed later this year. Besides these concerns, we see no reason not to invest with any of the active managers during any rebalancing process, although given that the SRI policy is to be reviewed, this would imply that no new investment should be made with Jupiter until firmer conclusions have been drawn as to future policy.
- While we have no immediate concerns over the changes to Jupiter and proposed changes to MAN's ownership structures and the impact on the management of the funds, we recommend that further investment is not made into these funds until the impact of these changes is clear.

Section Two – Market Background

- The tables below summarise the various market returns to 30 June 2010, 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	-11.8	21.1
Overseas Equities	-10.5	24.1
USA	-10.4	26.0
Europe	-14.2	17.0
Japan	-8.7	10.5
Asia Pacific (ex Japan)	-6.9	34.6
Emerging Markets	-6.5	37.7
Property	3.6	23.9
Hedge Funds	-2.3	11.6
Commodities	-9.2	4.1
High Yield	-0.7	38.9
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	6.4	8.0
Index-Linked Gilts (>5 yrs)	1.6	8.4
Corporate Bonds (>15 yrs AA)	3.6	17.3
Non-Gilts (>15 yrs)	3.1	17.6
Inflation Indices	**3 Mths %**	**1 Year %**
Price Inflation (RPI)	1.5	5.0
Earnings Inflation	-1.9	1.9
Consumer Price Index (CPI)		

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-1.4	-9.2
Against Euro	9.0	4.0
Against Yen	-6.6	-16.7
Yields as at 30 June 2010	**% p.a.**	
UK Equities	3.34	
UK Gilts (>15 yrs)	4.14	
Real Yield (>5 yrs ILG)	0.67	
Corporate Bonds (>15 yrs AA)	5.31	
Non-Gilts (>15 yrs)	5.40	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	-0.3	-0.2
Index-Linked Gilts (>5 yrs)	0.0	-0.2
Corporate Bonds (>15 yrs AA)	-0.2	-0.9
Non-Gilts (>15 yrs)	-0.2	-0.8

Statistical highlights

- In the UK, the General Election resulted in a hung parliament and the formation of a coalition government. The new government has quickly taken action to allay concerns about the high budget deficit and, in the emergency budget, increased VAT, imposed a levy on banks and announced that most government departments would have to reduce spending by 25% by 2014/15.
- Short term factors, such as the restoration of the standard rate of VAT to 17.5%, higher oil prices and the past depreciation of sterling have led to a rise in the rate of RPI inflation to 5%.

- The crisis of confidence in the Eurozone sovereign debt markets has led to a significant rise in the spread between yields on most government bonds within the region and German bunds, and, over the quarter, the rating agencies downgraded Greece, Spain and Portugal. With uncertainty as to how the Eurozone problems would be solved, the government bond markets in the UK and the United States both benefited from a 'flight to quality'.
- Against this background, global equity markets performed poorly over the quarter on concerns that the imposition of austerity measures in Europe and a slowdown in the pace of economic recovery in the US could lead to a double dip recession.
- Over the quarter, sterling strengthened against the euro owing to the crisis of confidence in the single currency, although sterling depreciated against the US dollar and the Japanese yen.

UK market events – Q2 2010

- **Quantitative Easing:** The Bank of England has kept its £200 billion quantitative easing programme on hold.
- **General Election:** The results of the General Election in May gave the nation's first hung parliament since February 1974. The Conservative Party led by David Cameron won the largest amount votes and seats, however this was still short of an outright majority win. Following this, the Conservative party joined forces with the Liberal Democrat Party led by Nick Clegg; forming a coalition government (something which had not been seen in the UK for over 60 years). David Cameron promptly named his cabinet and the newly appoint Chancellor of the Exchequer, George Osborne, announced the 2010 Budget on 22 June 2010 which contained severe fiscal tightening.
- **Government Debt:** In mid August 2010 (latest available) UK national debt stood at £939 billion, or 63.7% of GDP.
- **Unemployment:** The unemployment rate in the UK fell by 49,000 to 2.46 million during the three months to June 2010. The rate of unemployment fell by 0.2% to 7.8%, according to the Office for National Statistics. This was the second month in succession where the jobless number has fallen and is the biggest such drop in three years. The number of people employed increased by 184,000, the largest quarterly rise since 1989.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey fell from 54.6 in March 2010 to 54.4 in June 2010 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation fell from 3.4% at the start of the quarter to 3.2% at the end of June 2010. RPI annual inflation rose from 4.4% at the start of the quarter, to 5.0% at the end (RPIX inflation, which excludes mortgage interest payments remains unchanged at 5.0%). The equivalent annualised EU CPI figure was 1.9%. The Governor of the Bank of England, Mervyn King, was forced to write a letter to the Chancellor of the Exchequer, George Osbourne, explaining why the CPI was more than one percentage point above the 2% target, warning he would write similar letters in the short term as prices are expected to continue to rise. Short term factors, such as the restoration of the standard rate of VAT to 17.5%, higher oil prices and the past depreciation of sterling have led to a rise in the rate of inflation.
- **Gross Domestic Product:** In the second quarter of 2010 GDP grew by 1.1%, compared with (an adjusted) 0.3% in the previous quarter. This is the third successive quarter of economic expansion, which was mainly attributed to growth across the board for example in services, construction and production. Manufacturing made the largest contribution to the growth, where output rose 1.6%.

- **Interest Rate:** Despite the fact inflation remains well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been in place since March 2009. The economic recovery continued in the UK, with output growth across the first half of 2010, close to historical levels. However, the level of economic activity remained well below its pre-crisis peak and the revival of the economy remains fragile with significant downside risks and spare capacity is likely to persist. Economists have largely welcomed the Bank of England's decision arguing low interest rates are needed to aid the recovery in the economy, particularly with cuts in public sector spending expected to have a detrimental effect on growth prospects.

Europe market events – Q2 2010

- **European sovereign debt crisis:** The European sovereign debt crisis dominated markets, with the strength of the euro falling against major currencies. Investors become increasingly risk averse leading to a large scale sell-off of southern European government bonds in a so-called 'flight to quality', with investors switching to (perceived safer) German and UK government bonds. As a result bond yields fell for German and UK government bonds and rose for the so-called "Club Med", Southern European countries of Greece, Italy, Spain and Portugal.
- **Greece:** The Greek economy remains deep in economic crisis after being forced to adopt harsh austerity measures to reduce the national debt. Public spending has been severely cut and the government has raised the level of taxation in an effort to halt the country's rising budget deficit. The Greek economy shrank by 1.5% in the second quarter and unemployment increased to 12%, pointing to a deep recession as the country battles its debt crisis. The disappointing official GDP figures have increased the cost of protecting Greek government debt against default. The cost of insuring exposure to €10m of Greek government bonds now stands at €795,000 a year, according to CDS monitor Markit.
- **Spain:** The Spanish economy remains fragile against a backdrop of volatile financial markets and an acute crisis of confidence, following the spread of the effects of the Greek fiscal crisis to other European economies. GDP rose by 0.2% during the second quarter despite the Spanish government's austerity measures designed to reduce the national debt. Unemployment rose to a decade high of 20.1% and there are fears the economy will slip back into recession as fiscal tightening implies the economy will have to fend for itself.
- **Germany:** The German economy expanded at its fastest pace in nearly 20 years during the second quarter, which saw a 2.2% expansion with the economy showing signs of improvement where the services and industrial sectors provided strong return figures and the stress test results in the banking sector largely restored confidence in markets.
- **Unemployment:** Unemployment in the EU 27 remained at 9.6% over the second quarter. The lowest unemployment levels were in Austria (3.9%) and the Netherlands (4.4%), and the highest in Latvia (20.0% estimated) and Spain (20.0%).
- **Services and Manufacturing Sectors:** The Eurozone’s services sector PMI expanded over the 3 months in the second quarter of 2010 to 56.0 in June 2010 (again, the 50-level separating growth from contraction), and continued to rise to 56.7 in July 2010. Manufacturing output has shown signs of improving with the PMI increasing to 55.6 in June 2010.
- **Inflation:** Annual inflation in the Eurozone remained unchanged at 1.4% in June 2010.
- **Gross Domestic Product:** GDP increased by 1.0% in both the Eurozone and the EU 27 during the first quarter of 2010.

- **Interest Rate:** The European Central Bank has maintained its decision to keep the base rate at a record low of 1.0% since May 2009.

US market events – Q2 2010

- **Unemployment:** The rate of unemployment in the US rose from 9.3% in May 2010 to 9.6% in June 2010.
- **Manufacturing and Industrial Production:** The growth in manufacturing production fell over Q2 2010, leading commentators to suggest production could actually tip into negative territory.
- **Inflation:** The Consumer Price Index annual change fell to 1.1% p.a. in June 2010 from 2.3% p.a. as at 31 March 2010. The weak global outlook dampened inflation expectations, with recent economic data suggesting growth in the US economy was stuttering, with investors switching to so-called safe heaven assets such as government bonds.
- **Gross Domestic Product:** US GDP increased by 2.4% over the second quarter of 2010, which has slowed from the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.
- **US Housing Market:** Sales of existing homes in the US have plunged to their lowest level in more than 10 years, caused by the end of tax credits for home buyers hitting the housing market. The figures have added to fears about the US economic recovery.

Emerging Markets market events – Q2 2010

- Emerging Markets produced negative returns over the second quarter of 2010. However, the Chinese economy only produced a return of -2.5% and India achieved a slight positive return of 0.2%. Emerging Markets are seen by many commentators as being the most resilient markets in the face of a potential double-dip recession in the developed Western economies.
- Policy makers in Brazil and China have been fretting about the excessive pace of expansion and in recent months have applied the policy brakes on their economies. Questions remain whether the Emerging Market nations can sustain their recoveries given the economic uncertainties returning to the developed world.

Market events – Global summary – 1 year

- Over the past year the global economy has continued to recover and all the major economies have emerged from recession, with many of the less developed countries growing strongly. Indeed, in China there is speculation of imminent policy tightening to curb inflation, whilst Australia's central bank raised interest rates for the fifth time in seven months in April 2010 to prevent the economy from overheating. However, towards the end of the period, there were signs that the pace of the recovery in both the US and Europe was beginning to slow.

- The sovereign debt crisis affecting mainly the so-called "Club Med" economies and Ireland in the Eurozone has had a major influence on the financial markets over the past few months and has led to fears that the Eurozone economic recovery might stall. As the crisis unfolded in Greece, the Portuguese, Spanish and Irish economies came under the spotlight and the euro depreciated against all the major currencies, with some debate regarding a possible 'break-up' of the euro. Initially Germany and France refused to intervene on behalf of Greece, citing the no bail-out clause in the Maastricht Treaty, but market pressures eventually forced the EU, in conjunction with the International Monetary Fund, to provide a €750 bn liquidity package. The package provides a short-term financing facility that enables governments to rollover maturing debt at favourable rates. This reduces the likelihood of a sovereign default, which potentially could lead to a default of a major European bank, many of which have significant exposure to government debt in these countries. Fiscal tightening measures are now being implemented in most Eurozone countries in order to head off a worsening of the debt crisis, although this has led to demonstrations in both Greece and Spain.
- The Bank of England spent £200bn under its policy of quantitative easing ("QE") by purchasing gilts in order to improve liquidity in the markets and to stimulate the economy. Although the UK economy has emerged from recession, it remains fragile, growing by just 0.3% in the first quarter of 2010, and the newly created Office for Budgetary Responsibility forecasts that the economy will grow by 1.2% in 2009/10 and 2.3% in 2010/11 notwithstanding the figure of 1.1% for GDP growth in Q2 2010.
- In the latter part of 2009 and during the run up to the General Election, there was increasing concern about the spiralling level of government debt and a rapid rise in the rate of both RPI and CPI rates of inflation, albeit from a very low level. In the UK, the prospect of a hung parliament also led to uncertainty in the UK financial markets. The General Election resulted in a hung parliament and the formation of a coalition government. However the new coalition government has quickly taken action to allay concerns about the high budget deficit and, in the emergency budget, increased VAT, imposed a levy on banks and announced that most government departments would have to reduce spending by 25% by 2014/15. Against this background, the Monetary Policy Committee of the Bank of England (MPC) has maintained interest rates at 0.5% throughout the period. Most analysts now believe that interest rates will remain at a lower level for longer than had previously been forecast, despite the recent increase in the rate of inflation. Some analysts still remain concerned that the scale of the cutback in government spending could lead to a double dip recession.
- Interest rates in the US and the Eurozone were also unchanged over the year at 0.25% and 1.0% respectively.

Equities

- Amid increasing evidence that the global economy was emerging from recession, the recovery in the global equity markets from the low point in March 2009 gained momentum during the remainder of the 2009. The markets continued to rally during Q1 2010, but during Q2 2010 they performed poorly as the pace of the economic recoveries in the United States and Europe moderated. Nevertheless, the return on the UK equity market over the year was 21.1% and that on overseas equity markets was 24.1%. During the period, the FTSE All-Share Index rose to a level above that last seen prior to the collapse of Lehman Brothers.
- More recently, the European debt crisis has dominated the headlines, leading to major falls in share prices, particularly those of the Southern European banks. In local currency terms the worst performing equity market over the last quarter was in Japan, which fell by 14.7% but the US, UK, Europe ex UK, Emerging Markets and Asia Pacific fell by 11.6%, 11.8%, 8.2%, 6.0%, and 4.7% respectively.
- The optimism in the UK equity market that had emerged since last June quickly evaporated during Q2 2010 as it emerged that the UK economic recovery was not gaining momentum. The BP oil spill in the Gulf of Mexico dominated the headlines over the quarter and has led to strained relations between the US and UK governments. At one stage, BP comprised almost 7% of the FTSE All-Share Index but its share price has more than halved and, at one stage, it comprised only around 4% of the index. Following pressure from the US government, the company is suspending dividend payments. The impact of the suspension in dividend payments on UK pension schemes is severe, because roughly speaking £1 in every £7 of dividend income from the FTSE 100 companies comes from BP. The disaster has damaged the reputation of BP, is likely to lead to punitive fines and has also had an adverse impact on the valuation of other energy companies.
- Over the period as a whole, the equity markets in the developed and emerging markets of the Pacific Basin produced the best returns as their economies were growing rapidly, their banking systems were not subject to the same pressures as those in the West and there was not a large overhang of government debt.

Bonds & credit

- At the start of the 12 month period, the spread of long-dated AA rated corporate bond yields over long-dated gilt yields stood at approximately 1.9% and over the period it fell to around 1.2%.
- The recovery in the corporate bond market from the low point in March 2009 had begun when it became apparent that investors' worst fears regarding the length and depth of the recession were not being realised and corporate defaults were at a much lower level than had been priced into the market. Despite a high level of new issuance, during the review period there was significant demand from investors as they recognised that corporate bonds offered an equity like long-term rate of return for a much lower level of risk.
- Spreads have widened slightly over the last few weeks because of the flight to quality to gilts rather than any particular concern about corporate bonds and the yields on corporate bonds are still attractive on a longer term view.
- Index-linked gilt yields also fell over the 12 months as fears about the outlook for inflation kept demand at a high level relative to supply.

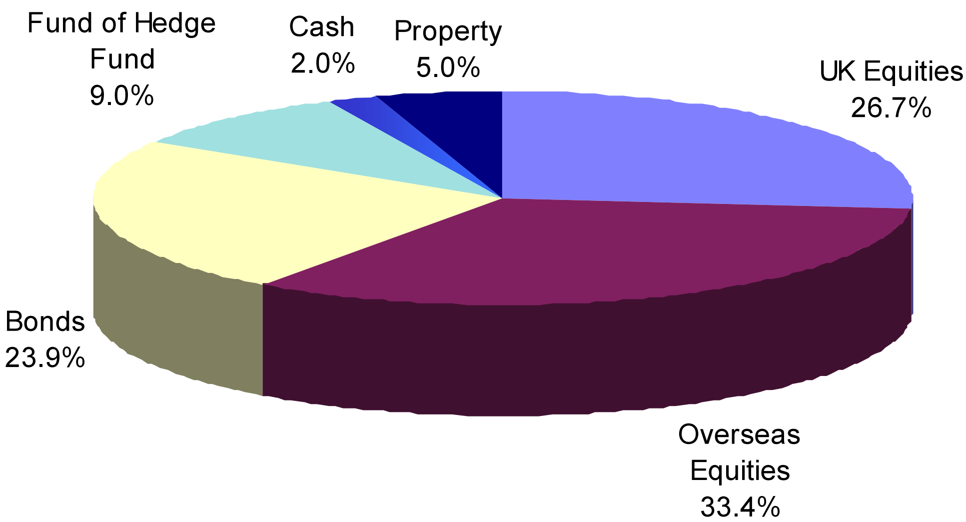
Alternative asset classes

- From mid-2009 onwards, property staged something of a bounce-back as investors began to believe that the market had reached the bottom and started to invest their capital. Indeed, towards the end of 2009 and in early in 2010, high demand for property from retail, institutional and foreign investors caused some pooled funds to close to new investment, or to introduce a waiting period. This is the reverse of the situation observed as recently as late 2007 / 2008, when funds closed in order to manage requests for disinvestments.
- Hedge funds on the whole had a positive year, although they have tended to underperform the equity markets. In some cases this resulted from a decision by some funds to lock in their profits for 2009 rather than continue to be exposed to market movements in the latter part of 2009. Perhaps surprisingly, hedge funds produced a negative return over the last quarter despite the volatility in the financial markets. Distressed debt and long / short equity funds were among the better performing hedge fund strategies over the period.
- For most of the period under review, commodities performed well, benefitting from the strength of the global economic recovery. Although commodity prices fell by more than 9% during the last quarter as the pace of the global recovery slowed, commodities have produced a return of 4.1% over the year.
- Mirroring the events in the corporate bond market, high yield bonds performed strongly with spreads relative to government bonds falling substantially.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 30 June 2010, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset class allocation as at 30 June 2010



Asset Class	30 June 2010 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	615,013	26.7	27.0
Overseas Equities	770,987	33.4	33.0
Bonds	550,230	23.9	20.0
Fund of Hedge Funds	208,668	9.0	10.0
Cash	45,842	2.0	-
Property	114,484	5.0	10.0
Reconciling differences and rounding	-337	0.0	-
TOTAL FUND VALUE	**2,304,887**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets fell by £149m over the second quarter of 2010 to £2,305m, mainly as a result of negative absolute investment performance from asset classes such as UK and overseas equities, as well as hedge funds. These assets comprise approximately 69% of the Fund's assets.
- There has been no significant change to the asset allocation, which has largely drifted with investment market movements over the quarter. There were some investments during the quarter, which included the funding of property investments.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 March 2010 Value £'000	Proportion of Total %	Net New Money £'000	30 June 2010 Value £'000	Proportion of Total %
Jupiter	UK Equities	94,241	3.8	-	91,647	4.0
TT International	UK Equities	124,756	5.1	-	108,259	4.7
Invesco	Global ex-UK Equities	158,223	6.4	-	140,403	6.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	86,044	3.5	-	76,444	3.3
Genesis	Emerging Market Equities	130,121	5.3	-	123,064	5.3
Lyster Watson	Fund of Hedge Funds	9,823	0.4	-	9,530	0.4
MAN	Fund of Hedge Funds	95,047	3.9	-	92,143	4.0
Signet	Fund of Hedge Funds	45,279	1.8	-	45,059	2.0
Stenham	Fund of Hedge Funds	11,544	0.5	-	11,225	0.5
Gottex	Fund of Hedge Funds	51,280	2.1	-	50,712	2.2
BlackRock	Passive Multi-asset	1,273,197	51.9	1,300	1,180,980	51.2
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	130,355	5.3	-7,130	120,337	5.2
RLAM	Bonds	122,185	5.0	-	124,456	5.4
Schroder	UK Property	76,786	3.1	1,630	81,125	3.5
Partners	Property	30,116	1.2	5,500	32,825	1.4
Internal Cash	Cash	15,161	0.6	-1,300	16,676	0.7
Rounding		1	0.1	-	2	0.1
TOTAL		**2,454,159**	**100.0**	**-**	**2,304,887**	**100.0**

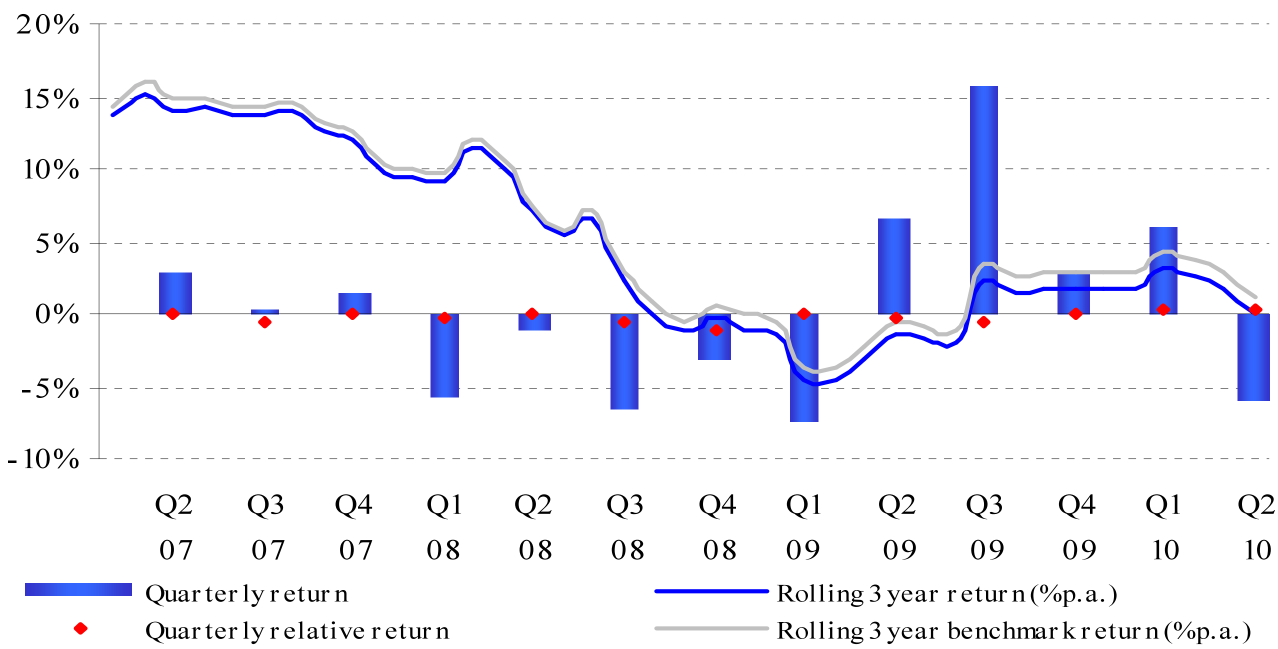
Source: Data provided by WM Performance Services

Section Four – Performance Summary

Total Fund performance

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

Total Fund absolute and relative performance



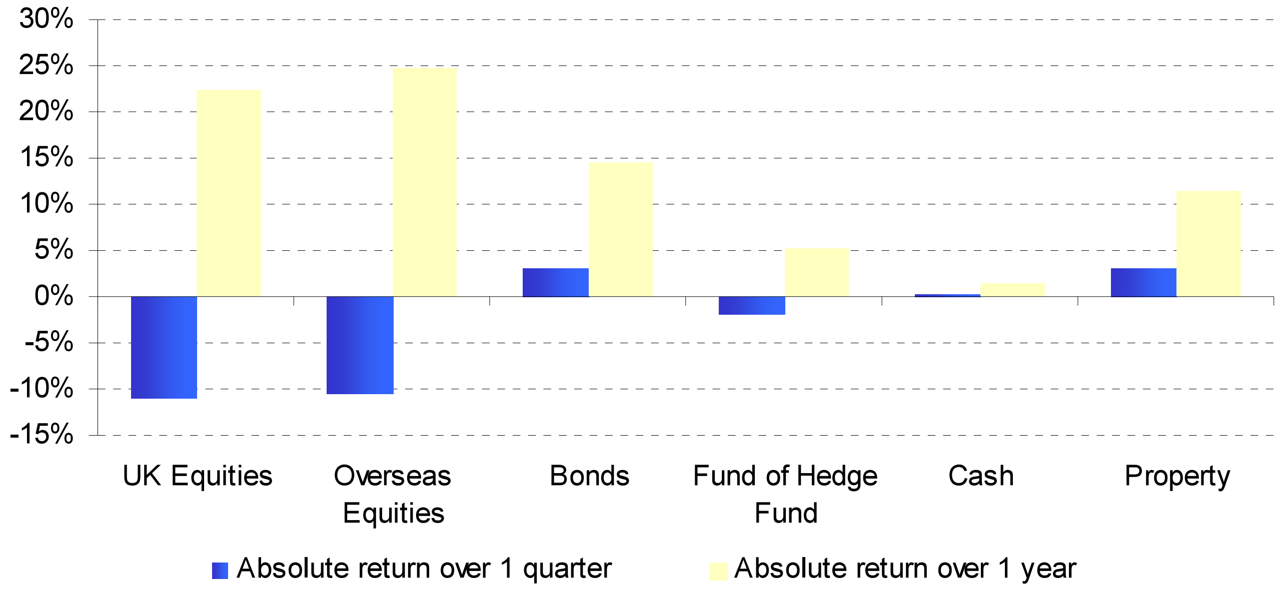
Source: Data provided by WM Performance Services

- Please note that the rolling 3 year return has been included in place of the rolling 1 year returns in previous quarters, to provide a longer term view of investment performance.
- Over the last quarter (blue bars) the total Fund's assets produced a return of -6.1%, outperforming the customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 18.6%, outperforming the customised benchmark by 0.2%.
- Over the last 3 years (blue versus grey line) the total Fund's assets produced a positive return of 0.1% p.a., underperforming the customised benchmark by 0.9% p.a.
- The driver of negative absolute performance over the last quarter was the negative absolute returns from the majority of the Fund's managers across the asset classes (see page 17), in particular those within equities (both UK and overseas) and hedge funds.
- The slight outperformance over the quarter arose from positive relative returns from a number of the managers, most notably Jupiter, Genesis, SSgA and Schroder. BlackRock (multi asset), Invesco and RLAM performed broadly in line with their benchmarks. There were some underperforming managers (namely TT and the hedge fund managers) however these were outweighed by the positive relative returns.

Asset classes performance

- The chart and table below show the absolute performance of the Fund's assets by asset class over the quarter and year to 30 June 2010. Note that the returns from the BGI Multi-Asset portfolio and the second BGI portfolio (now under the name of BlackRock), which hold a combination of asset classes, are aggregated within the relevant asset class returns.

Asset class absolute performance to 30 June 2010



Source: Data provided by WM Performance Services

- Over the second quarter of 2010, UK equities, overseas equities and fund of hedge funds all produced negative returns; bonds produced positive returns, as did cash and property, albeit small.
- The key drivers of absolute performance are:
- UK and overseas equity markets had a turbulent quarter and produced disappointing returns of -10.8% and -10.4% respectively.
- Sterling depreciated against the dollar and yen over the quarter, meaning a higher return on the dollar and yen denominated overseas equities in sterling terms. Sterling appreciated against the euro, meaning a lower return on the euro denominated overseas equities in sterling terms. All major markets produced negative returns for the quarter in local currency terms. The highest local currency return came from the Asia Pacific region, and the lowest from the Japan region.
- Bonds produced reasonable returns over the quarter, with the highest bond returns being produced by UK government bonds.
- The fund of hedge fund portfolio produced negative returns of -2.0%.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 30 June 2010:

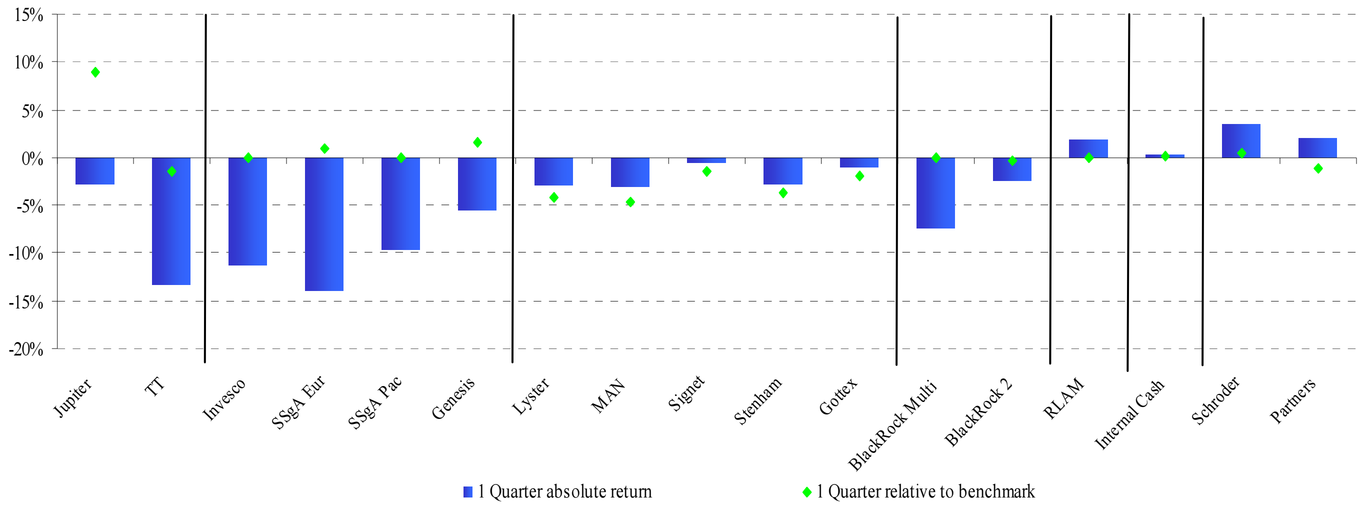
Asset Class	Weight in Strategic Benchmark	Q2 2010 (index returns)	1 year (index returns)
UK Equities	27%	-11.8%	21.1%
Overseas Equities	33%	-10.5%	24.1%
Index Linked Bonds *	6%	1.7%	9.0%
Gov Bonds – Fixed *	14%	4.5%	6.7%
Corporate Bonds *		1.0%	19.0%
Hedge Funds	10%	-2.3%	11.6%
Property	10%	3.6%	23.9%
Total Fund	**100%**		

*Please note that these are 'all maturities' index returns and so differ from the 'long maturities' index returns shown on the Market Background page in Section Two.

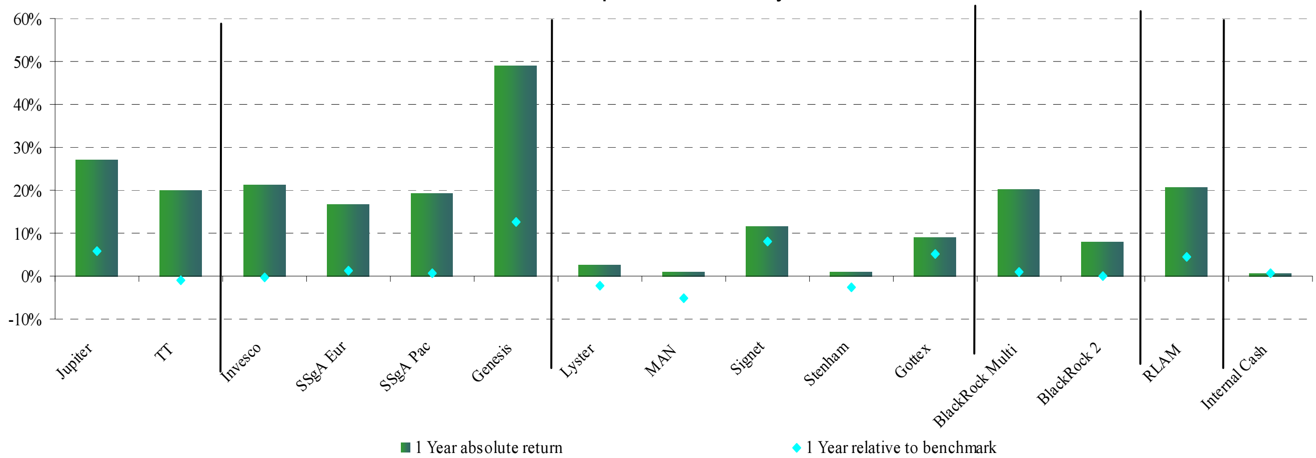
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of June 2010. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 30 June 2010



Absolute and relative performance - year to 30 June 2010



Source: Data provided by WM Performance Services

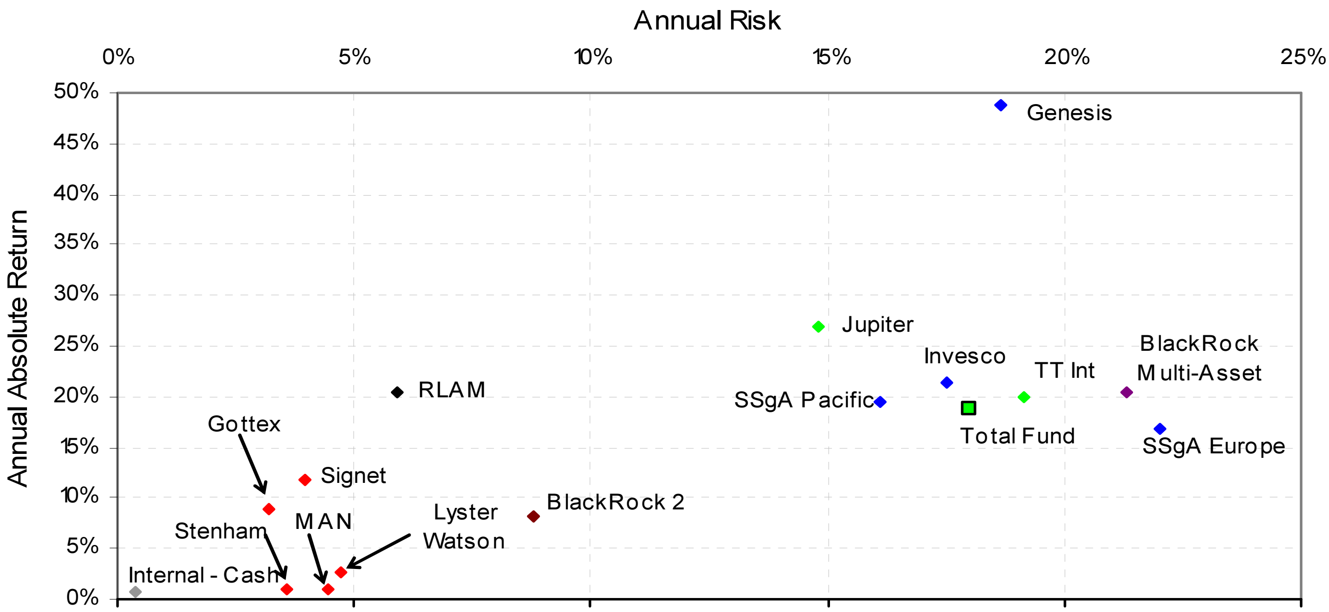
- The Fund invested with Partners for the first time in late Q3 2009 and as such their performance is now shown in the quarterly chart. One year performance data is not yet available for Schroders or Partners.
- Nearly all of the Fund's investment managers produced negative absolute returns over the quarter, the exceptions to this were RLAM, the internally managed cash and the two property funds with Schroder and Partners.
- Over the quarter, the strongest absolute performance came from the Schroder property fund. In relative terms Jupiter performed the best over the quarter, outperforming their benchmark by an impressive 9.1%.

- Over the year, all absolute returns were positive. Of note is the one year return achieved by the Genesis Emerging Markets equity portfolio, which was 48.9%, well ahead of its benchmark return of 36.2%.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2010 of each of the funds, along with the total Fund.

1 Year Risk v 1 Year Return to 30 June 2010



Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund
- Note: the property funds have invested for less than 1 year so are not shown in the chart above.
- The volatility of returns over the year has overall risen compared to last quarter. This is unsurprising given the returns which were witnessed over the last quarter. The funds where volatility increased notably compared with last quarter were Invesco, BlackRock Multi-Asset, SSgA Pacific and BlackRock No. 2. Jupiter decreased in volatility over the last quarter. Overall the changes to the volatility in the hedge funds were marginal.

- There has again been a shift downwards in the annual returns compared to last quarter, particularly the equity funds. This was driven by the fact that these funds produced negative returns over the last quarter particularly for the equity funds.
- The returns from the fund of hedge funds are again at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (to the extreme left).
- The very strong absolute return from Genesis over the last year has provided a very good risk adjusted absolute return, when compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectation. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

Section Five - Manager Performance

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

Summary of conclusions

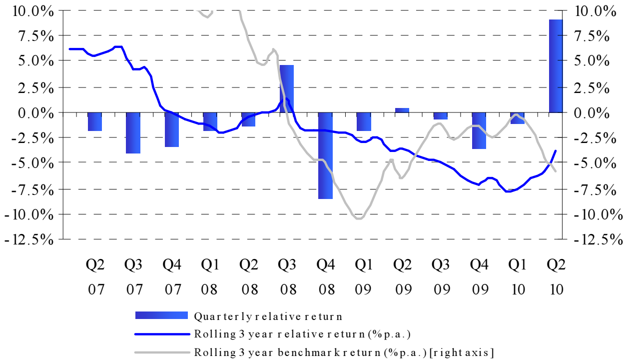
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, we do note that SRI remains under ongoing consideration by the Investment Panel and Committee, which would imply that any new investment with Jupiter should be at least subject to discussion until firm conclusions as to the practical implications of this review are reached.
- UK Equity Funds:
  - Jupiter significantly outperformed over the quarter, with their current SRI restrictions continuing to drive their relative returns, and impacting on the longer term performance. Previously, Jupiter had suffered from their very underweight allocation to the mining and Oil and Gas sectors; these sectors were the worst performers over the quarter, as such this position contributed strongly to the relative returns over the period.
  - In May Jupiter announced that they intended to list on the London Stock Exchange, this took place in June 2010 with the firm being valued at £755million. This will give a cash windfall to existing employees (although they will have lock-in periods). Any cash raised from the initial public offering is expected to be used to pay off debt dating from a private equity backed management buyout in 2007.
  - TT International underperformed their benchmark over the quarter, with the overweight positions in Oil & Gas, and underweights in Telecommunication and Technology detrimental to the relative returns.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced modest outperformance relative to the benchmarks over the quarter. Invesco performed in line with their benchmark over the quarter, although, as has been noted in previous reports, their performance can be affected by the 'timing' of the pricing of the fund compared to the benchmark index, particularly in more volatile market conditions.
- Emerging Market: Genesis outperformed their benchmark over the quarter, and produced a negative absolute return. The absolute return was driven by equity markets themselves, which overall produced negative returns over the quarter; the relative return was driven by Emerging Market equity returns and stock selection. The latest quarter of outperformance was the fifth consecutive quarter of outperformance from the manager.
- Fund of Hedge Funds:
  - In May GLG Partners announced that it had agreed to be acquired by Man Group plc, through a cash and share exchange. The shareholders are invited to vote on the proposed acquisition, with the results from this expected 1 September 2010. Provided approval is received, the acquisition is due for completion in September 2010.
  - It was announced over the quarter that Luke Ellis, a managing director at fund of funds firm Financial Risk Management ("FRM"), also non-executive Chairman of GLG Partners, will join Man Group plc when the proposed acquisition of GLG by MAN either closes or terminates.
  - Hedge Funds had a difficult quarter, which was driven by market movements; however, Hedge Funds outperformed equity markets.

- All the Hedge Fund managers underperformed their benchmarks this quarter, and all the managers produced negative absolute returns. The best performing manager in both absolute and relative terms was Signet and the bottom performer was MAN.
- Over the year to 30 June 2010, only Signet and Gottex are ahead of their objectives.
- The continued, underperformance of MAN should be considered in conjunction with the further review of the fund of hedge fund investments agreed for the second half of 2010.

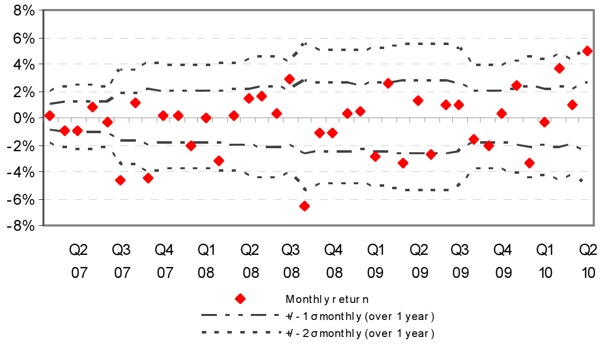
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have performed in line with their benchmark. There are no notable changes in the risk profile of their fund.
- Property: performance of the property funds over the quarter was positive in absolute terms. Schroder outperformed their benchmark, whilst Partners underperformed. Due to the short period since investment in the property funds, details are not provided in the charts following. These will be included in the future, once sufficient performance history is available. For the time being, a qualitative assessment is included for each of these two managers.
- While we have no immediate concerns over the changes to Jupiter and proposed changes to MAN's ownership structures and the impact on the management of the funds, we recommend that further investment is not made into these funds until the impact of these changes is clear.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

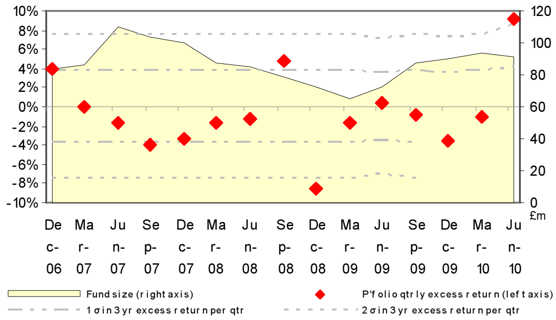
Relative returns #1



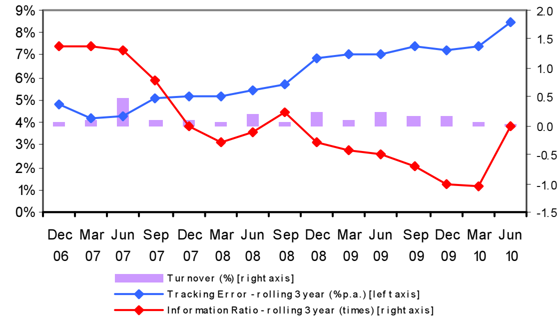
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



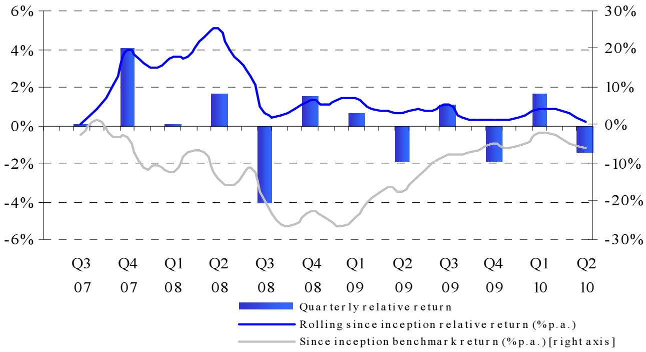
Source: Data provided by WM Performance Services, and Jupiter

Comments:

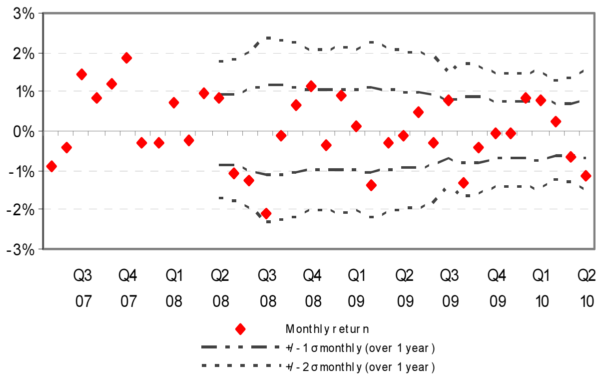
- In May 2010 Jupiter announced that they intended to list on the London Stock Exchange; Jupiter's float went ahead in June 2010, with the company being valued at £755m, whilst this was slightly below the previously targeted value of £1bn, the initial value was within the target range which Jupiter had set (albeit towards the lower end).
- Whilst there can be a risk attached to any significant capital restructuring, it is expected that Jupiter will use the opportunity to grow the business and become a larger and stronger organisation.
- We continue to have no significant concerns over the change, however it may take time before the full impact of the change is known, and therefore we recommend that further investment is not made into this Fund.
- Over the last quarter the Fund outperformed the benchmark by 9.2%, producing an absolute return of -2.7%.
- Over the last year the Fund outperformed the benchmark by 5.8%, producing an absolute return of 27.0%. Over the last 3 years the Fund underperformed the benchmark by 3.8% p.a., producing an absolute return of -9.6% p.a.
- Over the second quarter of 2010, small cap stocks outperformed mid and large cap stocks (-6.1%: -7.1%: -12.6% respectively). The outperformance of small caps benefitted Jupiter's relative performance.
- The Fund has a small exposure to cash (2.6%) which had a positive impact on absolute performance.
- The industry allocation is considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q2 2010, Jupiter were significantly underweight Mining and Oil and Gas, with overweights in Telecommunications and Utilities. These positions, driven by the SRI nature of their mandate, were positive contributors to relative returns.

TT International – UK Equities (Unconstrained)

Relative returns #1

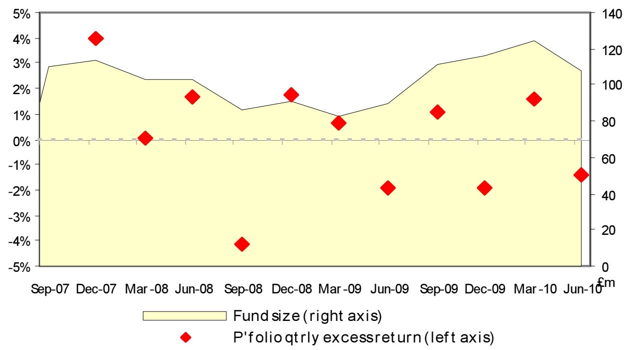


Monthly relative returns #2

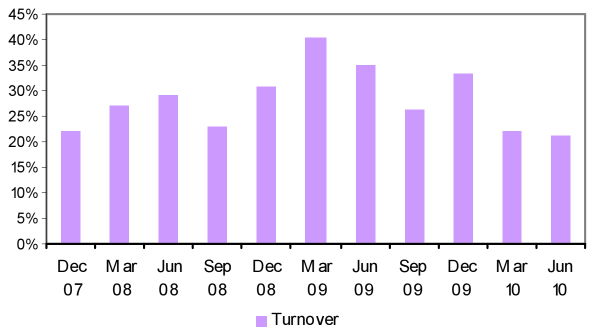


note: Q3 2007 is only a partial period of investment

Performance v fund size #3



Turnover #4



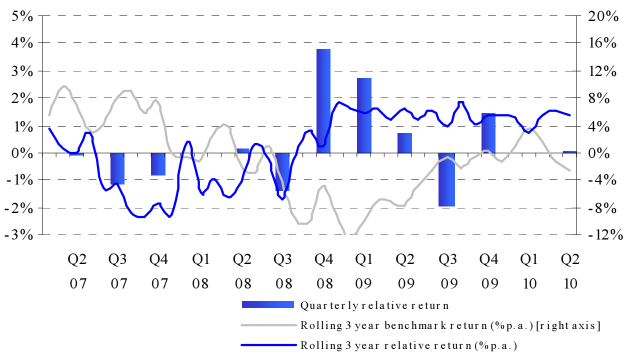
Source: Data provided by WM Performance Services, and TT International

Comments:

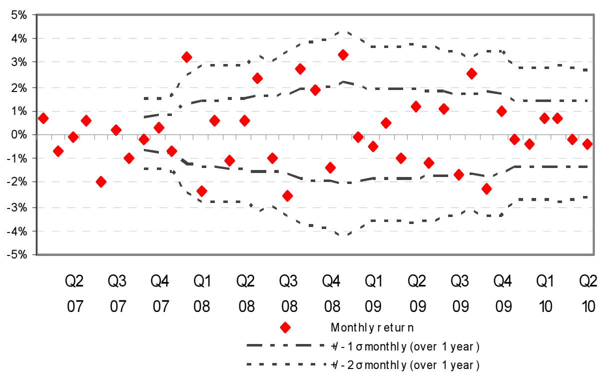
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -13.2%.
- Over the last year the Fund underperformed the benchmark by 1.2%, producing an absolute return of 19.9%. Over the period since inception the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of -5.8% p.a.
- The Fund was overweight in Oil & Gas by 1.7% relative to the benchmark, which was one of the worst performing sectors over the second quarter of 2010. The main underweights, Telecommunication and Technology (3% and 1% respectively) were amongst the strongest performers. These positions were detrimental to performance.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover has been marginally lower than in previous quarters, but not significantly so.
- Apart from the particularly poor quarter in Q3 2008, the volatility of this Fund relative to the benchmark is lower than that of Jupiter. This is driven by the fact that TT International's sector positions tend to be less severe than Jupiter's (which are a product of their Socially Responsible Investment brief). This more pragmatic style may be more suited for investment when rebalancing to active UK equities, not least given the ongoing review of SRI and Corporate Governance.

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

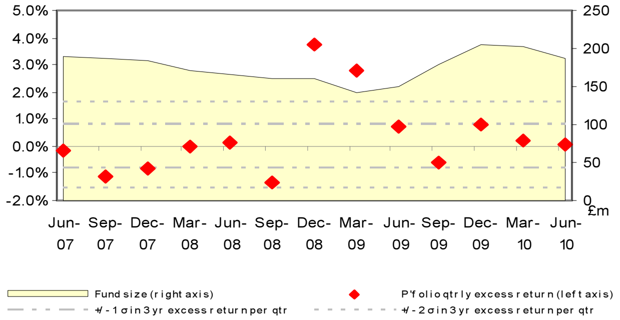
Relative returns #1



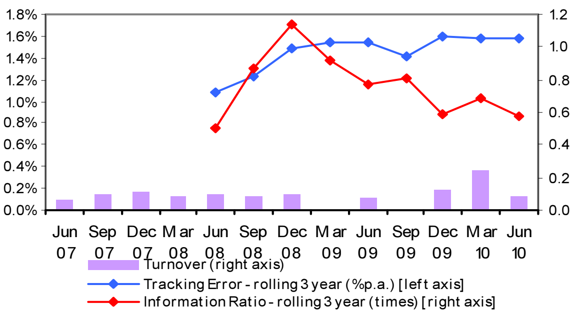
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



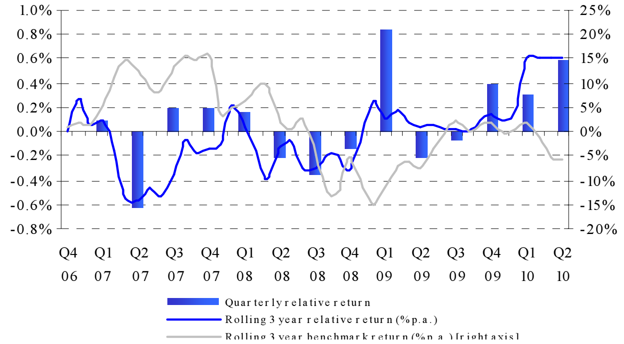
Source: Data provided by WM Performance Services, and Invesco

Comments:

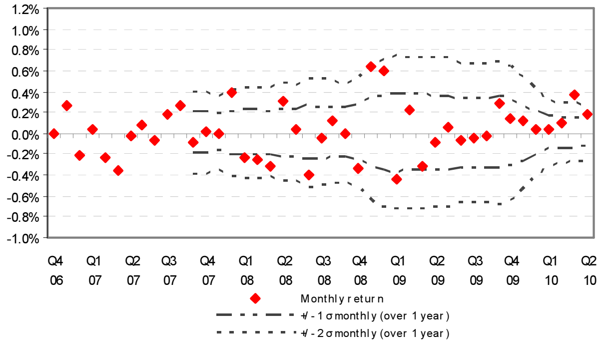
- Over the last quarter the Fund performed in line with its benchmark, producing an absolute return of -11.3%.
- Over the last year the Fund marginally underperformed the benchmark by 0.2%, producing an absolute return of 21.3%. Over three years, the Fund outperformed, by 1.4% p.a., producing an absolute return of -1.2%p.a.
- Contributions to relative performance from stock selection and country selection were broadly neutral. The timing of the pricing of the Fund versus the benchmark also remains a factor in its short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time, as the volatile 2008 has rolled out of the calculations. As an enhanced indexation fund the magnitude of the volatility is quite low. The larger deviations from the benchmark tend to be upwards, which is favourable.
- Turnover decreased slightly over Q2 2010 remaining low, as expected for this mandate. The number of stocks remains at approximately 500, which reduces stock specific risk through diversification.
- The industry allocation is relatively close, with all standard ICB industry sectors within 1.8% of the benchmark allocation, as is to be expected with this mandate.

SSgA - Europe ex-UK Equities (Enhanced Indexation)

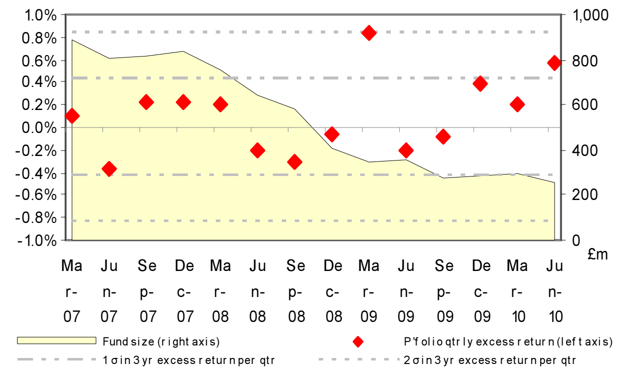
Relative returns #1



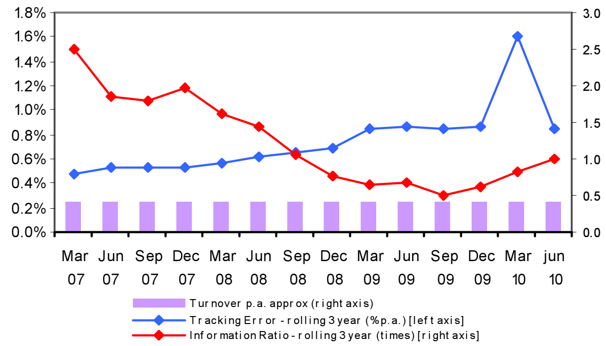
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



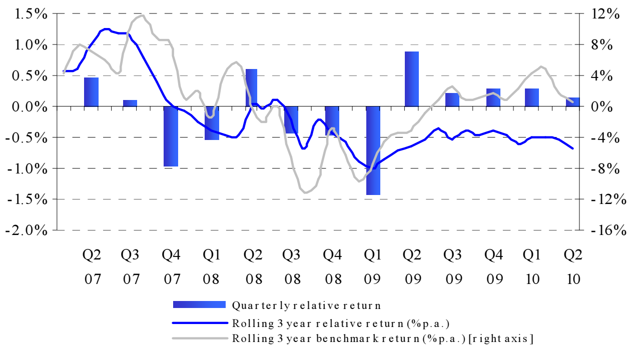
Source: Data provided by WM Performance Services, and SSgA

Comments:

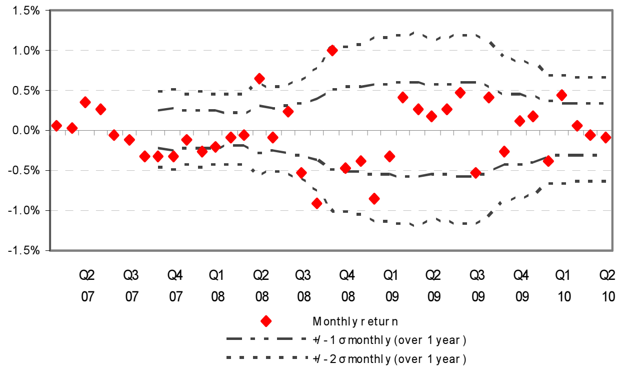
- Over the last quarter the Fund outperformed the benchmark by 0.9%, producing an absolute return of -13.9%.
- Over the last year the Fund outperformed the benchmark by 1.4%, producing an absolute return of 16.7%. Over the last 3 years the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of -5.0%p.a.
- Stock selection has been the primary driver of relative performance, continuing to account for approximately 90% of relative performance.
- The volatility of monthly relative returns remained fairly constant over the last year. As an enhanced indexation fund the magnitude of the volatility is very low.
- Turnover remains consistent over the last 3 years. The tracking error has decreased over the last quarter back to a similar level as at December 2009.
- Given its reasonable return and low risk this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities subject to the strategic benchmark constraints.

SSgA - Pacific incl. Japan Equities (Enhanced Indexation)

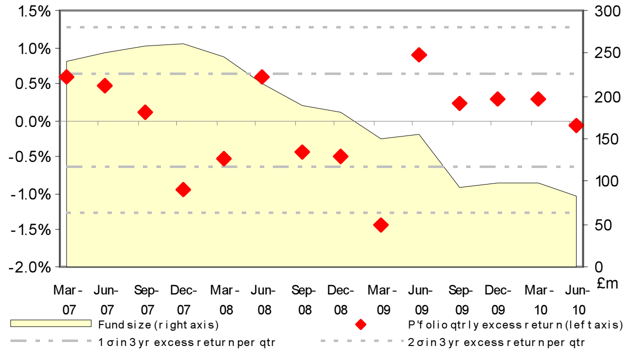
Relative returns #1



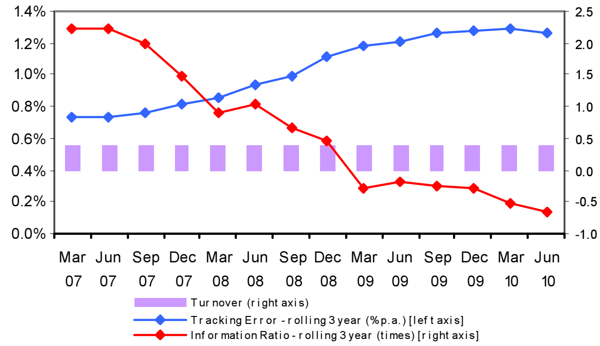
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



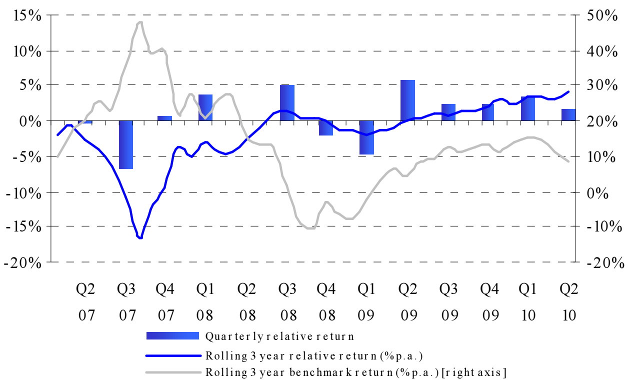
Source: Data provided by WM Performance Services, and SSgA

Comments:

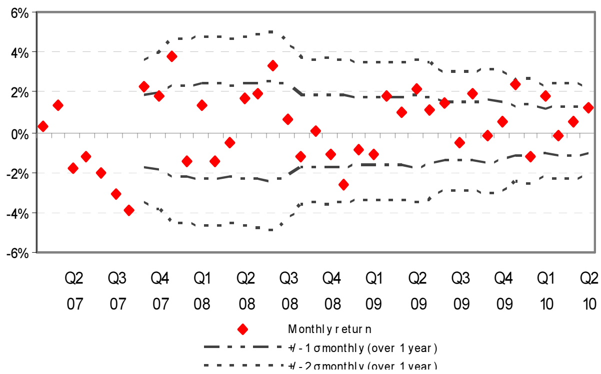
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of -9.1%.
- Over the last year the Fund outperformed the benchmark by 0.7%, producing an absolute return of 19.4%. Over the last 3 years the Fund underperformed the benchmark by 0.6% p.a., producing an absolute return of 0.0% p.a.
- Similar to the other SSgA portfolio, stock selection has been the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- The industry allocation remains close to the benchmark allocation, as would be expected from an enhanced indexation fund.
- Given its reasonable return and low risk this Fund would also appear to be suitable for new contributions or suitable for investment if rebalancing is required.

Genesis Asset Managers – Emerging Market Equities

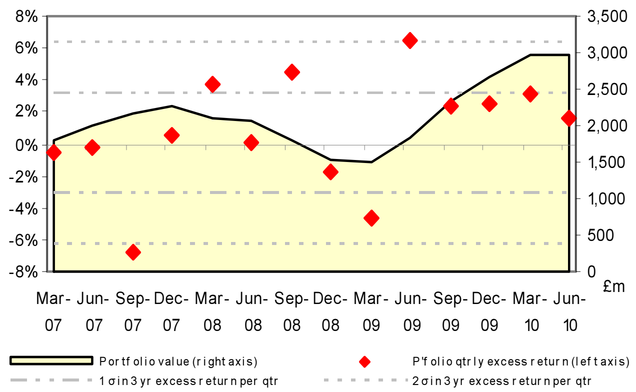
Relative returns #1



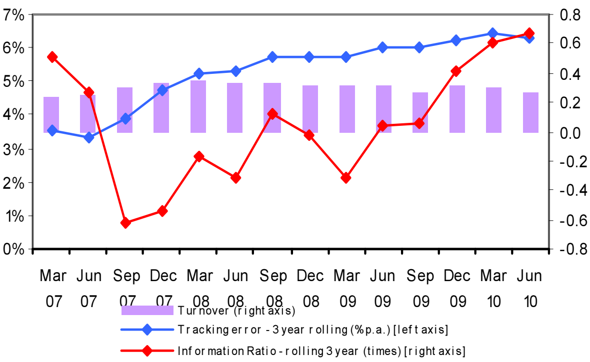
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



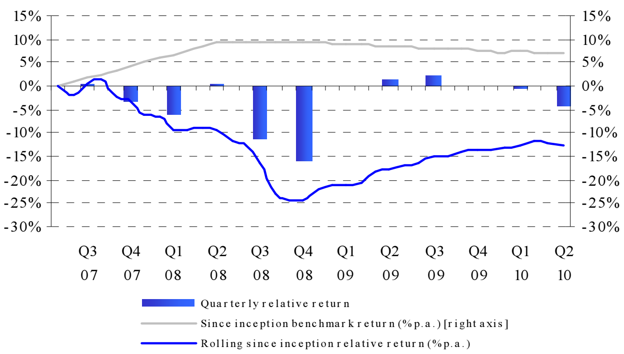
Source: Data provided by WM Performance Services, and Genesis

Comments:

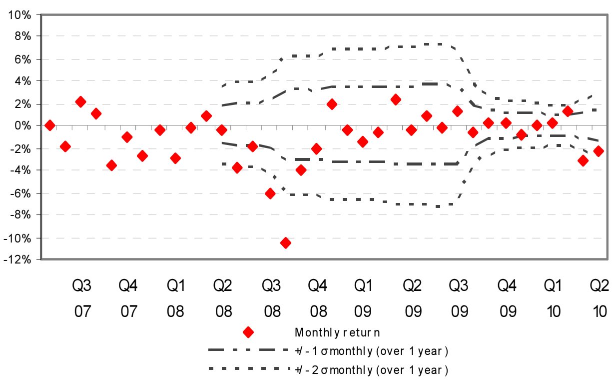
- Over the last quarter the Fund outperformed the benchmark by 1.6%, producing an absolute return of -5.4%.
- Over the last year the Fund outperformed the benchmark by 12.7%, producing an absolute return of 48.9%. Over the last 3 years the Fund outperformed the benchmark by 4.1% p.a., producing an absolute return of 12.5% p.a.
- The Fund is overweight to South Africa, India and Russia, and underweight China and Brazil. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries. Note that the China underweight is partly due to the restrictions on non-local investors.
- The 3 year tracking error (proxy for risk) fell slightly over the quarter. The 3 year information ratio (risk adjusted return) rose slightly over the quarter.
- On an industry basis, the Fund is overweight in Consumer Staples (+9.4%) and underweight Information Technology (-5.5%) and Energy (-3.8%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns [#1]

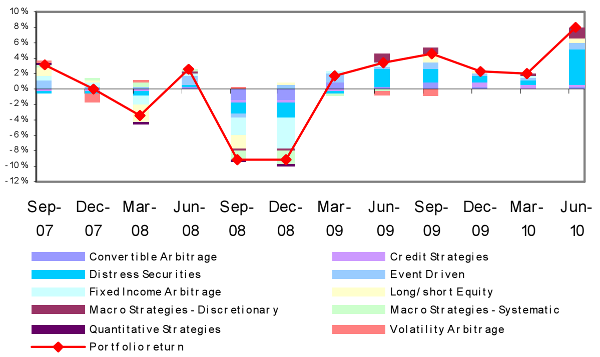


Monthly relative returns [#2]

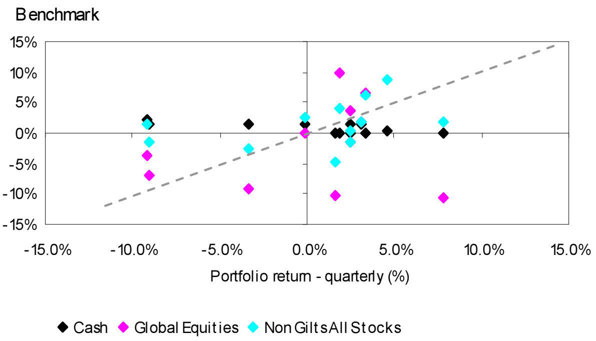


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



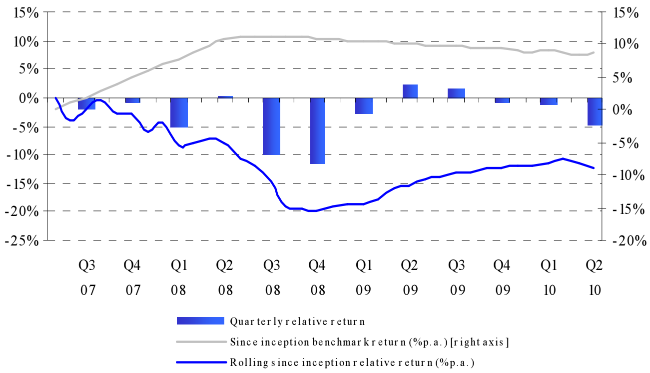
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

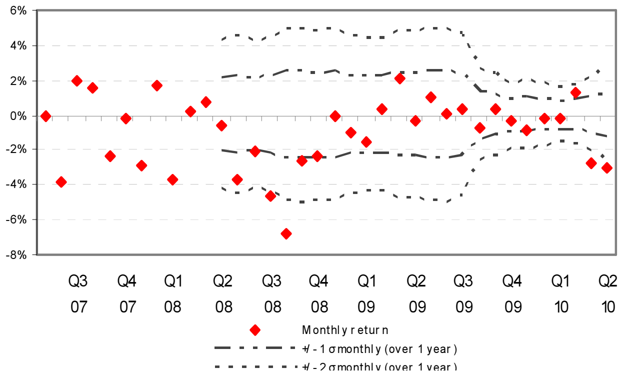
- Over the last quarter the Fund underperformed the benchmark by 4.1%, producing an absolute return of -3.0%.
- Over the last year the Fund underperformed the benchmark by 2.2%, producing an absolute return of 2.5%. Over the period since inception the Fund underperformed the benchmark by 12.8% p.a., producing an absolute return of -5.7% p.a.
- The key driver of the Fund's negative absolute return over the quarter has been the allocation to Distressed Securities, Event Driven Strategies and Long/Short Equity. There were some positive contributions from Credit Strategies and Fixed Income Arbitrage, but these were outweighed by the negative contributors.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation of 40% to Distressed Securities and Long/Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

MAN – Fund of Hedge Funds

Relative returns [#1]

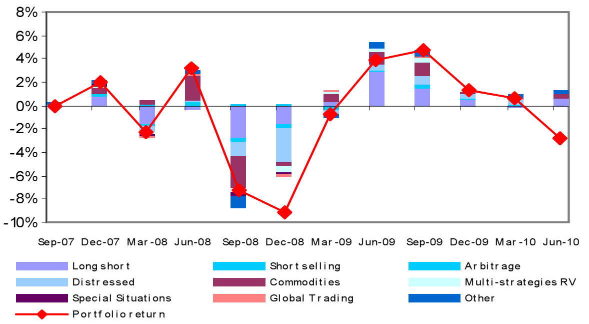


Monthly relative returns [#2]

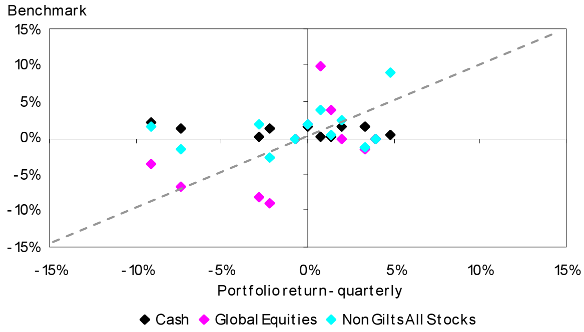


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



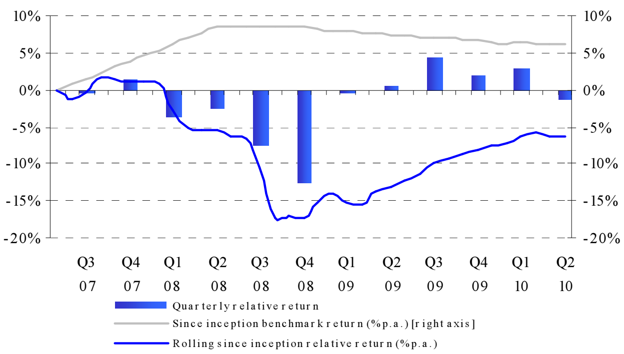
Source: Data provided by WM Performance Services, and MAN

Comments:

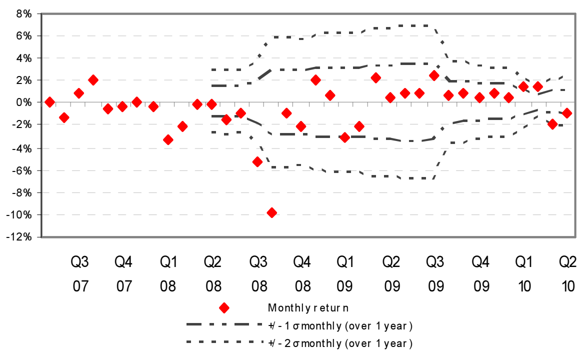
- In May 2010 GLG Partners announced that it had agreed to be acquired by Man Group plc, through a cash and share exchange. Man Shareholders have a meeting scheduled for 1 September, which will allow them to vote on the proposed resolution to approve and implement the acquisition. Provided approval is received, the acquisition is expected to complete in September 2010.
- The merged hedge fund business will manage c.US$63 billion of assets. The acquisition has been stated as the merging of complementary and uncorrelated investment strategies, with significant cost savings identified.
- There are no immediate concerns with the impact on the management of the Fund, although we recommend that further investment is not made into this Fund until the impact of the acquisition is clear.
- Over the last quarter the Fund underperformed the benchmark by 4.7%, producing an absolute return of -3.1%.
- Over the last year the Fund underperformed the benchmark by 5.3%, producing an absolute return of 1.1%. Over the period since inception the Fund underperformed the benchmark by 12.2% p.a., producing an absolute return of -3.3% p.a.
- The key driver of performance was the high allocation to Commodities, Long/Short Asia Pacific and Long/Short, while the remaining strategies produced returns that where either slightly negative or broadly neutral.
- The Fund has a diverse exposure to hedge fund strategies, although 64% is made up of Long/Short and Commodities strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Signet – Fund of Hedge Funds

Relative returns [#1]

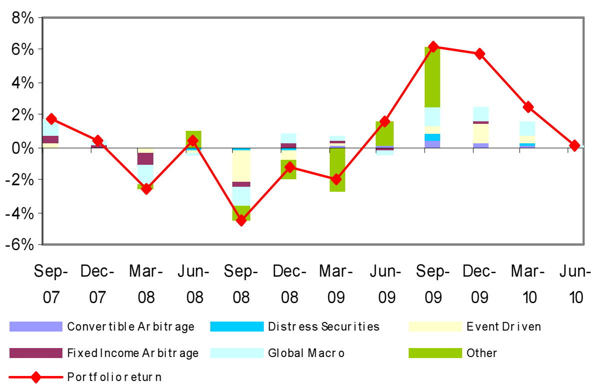


Monthly relative returns [#2]

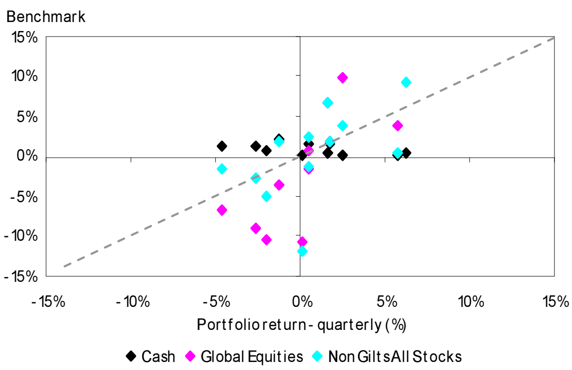


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



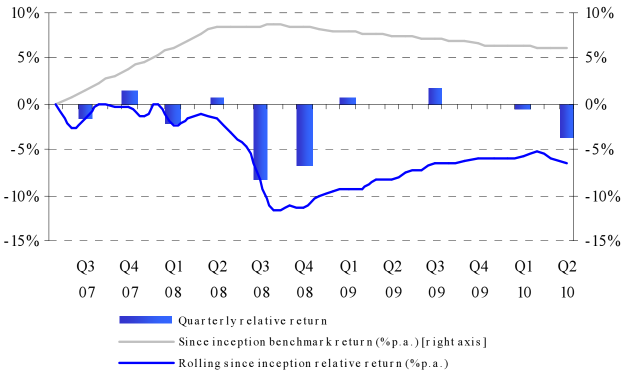
Source: Data provided by WM Performance Services, and Signet

Comments:

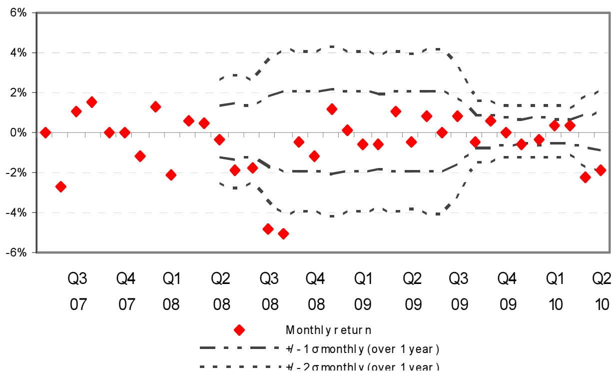
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -0.5%.
- Over the last year the Fund outperformed the benchmark by 8.0%, producing an absolute return of 11.7%. Over the period since inception the Fund underperformed the benchmark by 6.4% p.a., producing an absolute return of -0.2% p.a.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

Relative returns #1

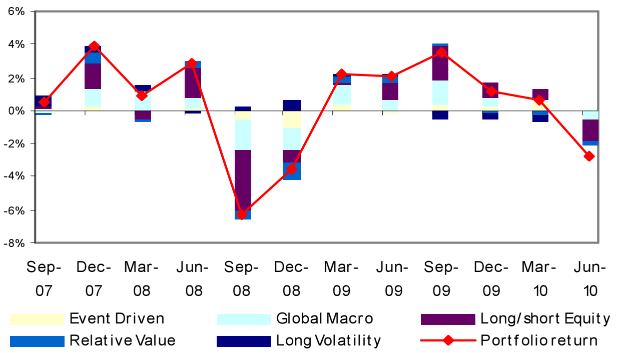


Monthly relative returns #2

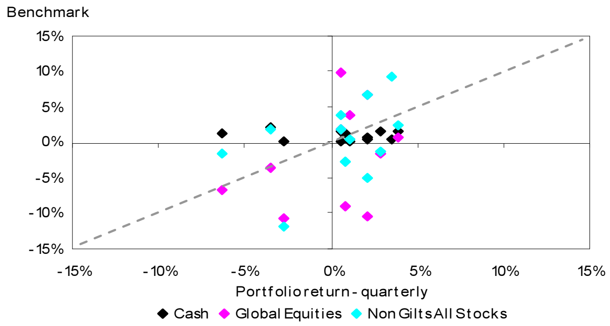


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7

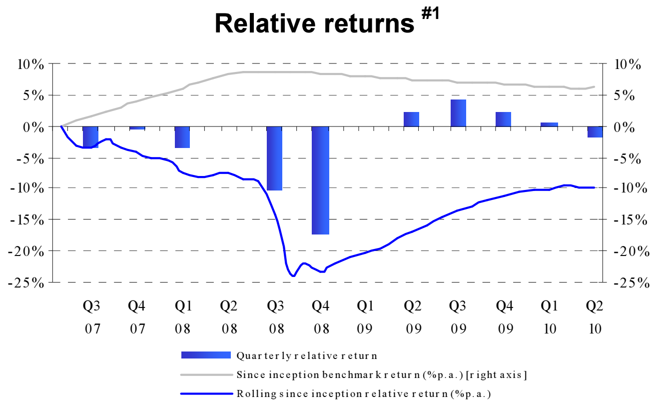


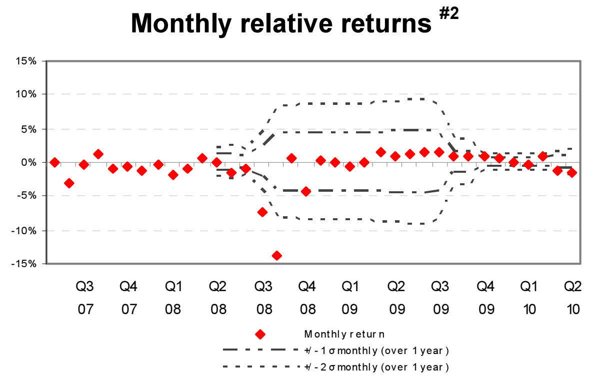
Source: Data provided by WM Performance Services, and Stenham

Comments:

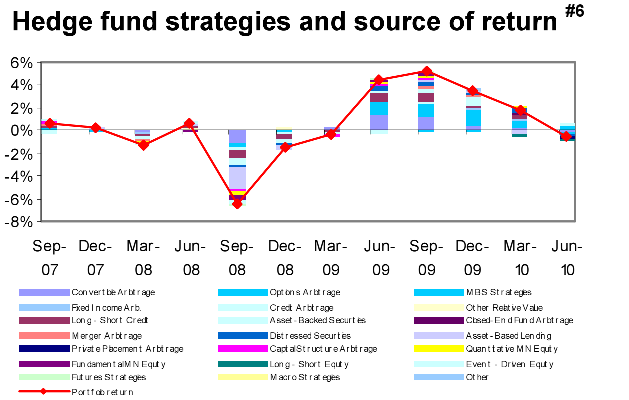
- Over the last quarter the Fund underperformed the benchmark by 3.7%, producing an absolute return of -2.8%.
- Over the last year the Fund underperformed the benchmark by 2.8%, producing an absolute return of 1.0%. Over the period since inception the Fund underperformed the benchmark by 6.4% p.a., producing an absolute return of -0.2% p.a.
- The main contributor to the negative absolute performance was the Long/Short Equity, however all the underlying strategies produced negative absolute returns.
- The allocation to the Global Macro and Long/Short Equity strategies made up 71% of the total Fund allocation. The allocation to cash was increased from 2% to 7.5% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

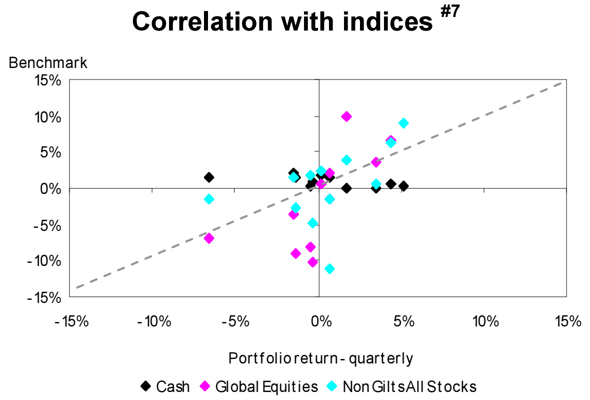
Gottex – Fund of Hedge Funds





note: Q3 2007 is only a partial period of investment





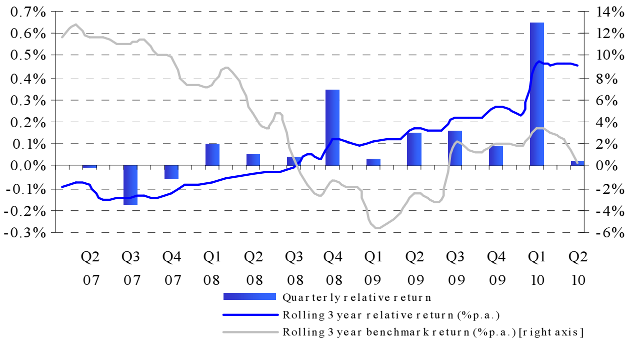
Source: Data provided by WM Performance Services, and Gottex

Comments:

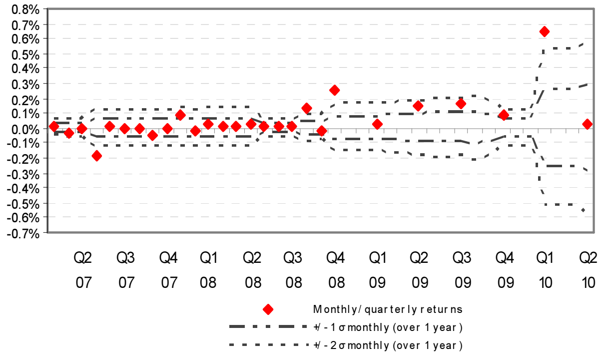
- Over the last quarter the Fund underperformed the benchmark by 1.8%, producing an absolute return of -0.9%.
- Over the last year the Fund outperformed the benchmark by 5.3%, producing an absolute return of 9.0%. Over the period since inception the Fund underperformed the benchmark by 9.9% p.a., producing an absolute return of -3.7%p.a.
- The key drivers of performance were Mortgage Backed Securities ("MBS"), Asset Backed Securities ("ABS"), Options Arbitrage, Asset Based Lending and Asset Based Securities. The largest contributor to performance was from MBS.
- The Fund has a diverse range of strategy exposures, with the major exposures continuing to be Convertible Arbitrage, Long-Short Credit and ABS Strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

BlackRock - Passive Multi-Asset

Relative returns #1

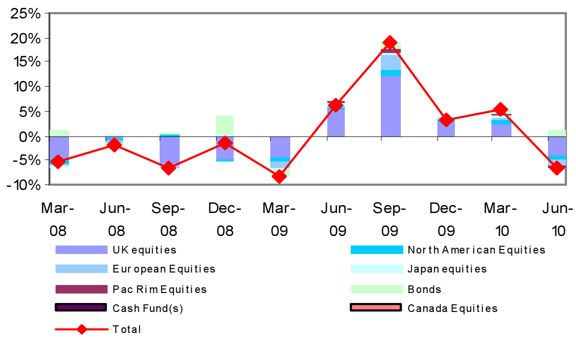


Monthly/Quarterly relative returns #2

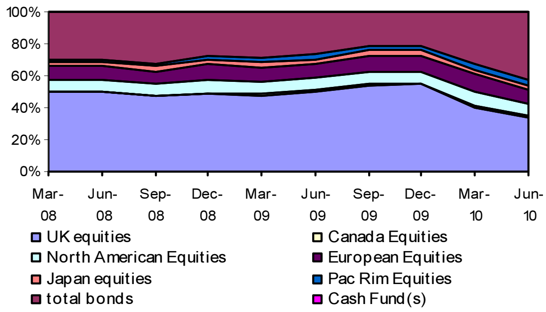


Note that return after Q4 2008 above are quarterly returns.

*Contribution to absolute return #6



Asset Allocation #5



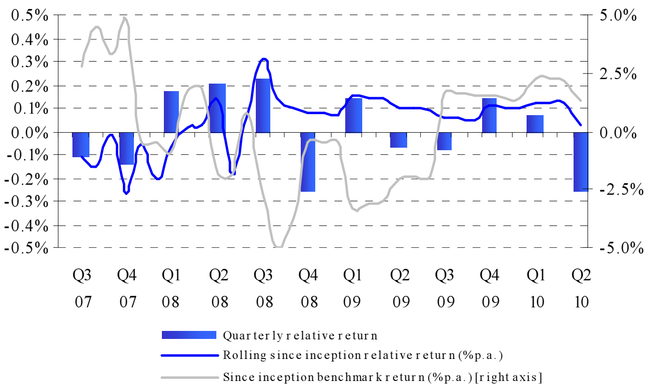
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter the Fund very marginally outperformed benchmark (by <0.1%), producing an absolute return of -7.4%.
- Over the last year the Fund outperformed the benchmark by 1.0%, producing an absolute return of 20.3%. Over the last 3 years the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 0.8% 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 portfolio has outperformed its benchmark for the last 10 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- Over the last quarter, and the start position 1 year ago, there has been some change within the underlying asset allocation; the total allocation to bonds has increased and the allocation to equities has reduced, although over the latest quarter in particular this was largely driven by market movements rather than a strategic change.

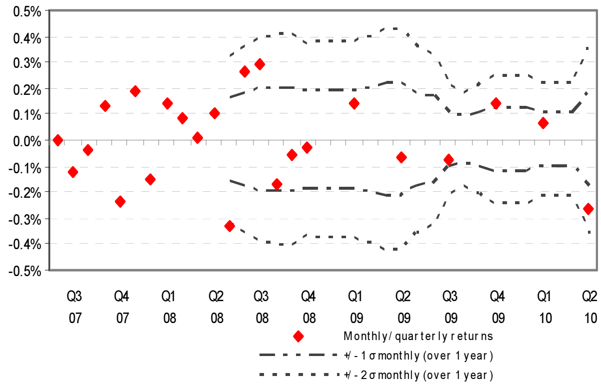
BlackRock No.2 – Property account ("ring fenced" assets)

Relative returns [#1]



Note: Q3 2007 is only a partial period of investment

Monthly relative returns [#2]



Note that return after Q4 2008 above are quarterly returns.

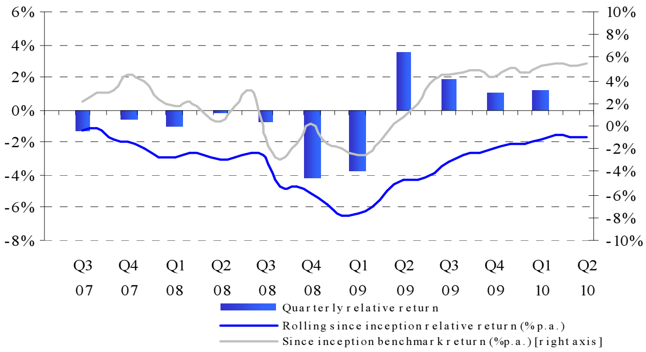
Source: Data provided by WM Performance Services, and BlackRock

Comments:

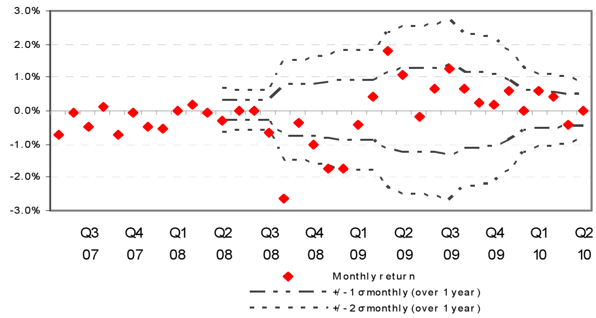
- Over the last quarter the Fund underperformed the benchmark by 0.3%, producing an absolute return of -2.5%.
- Over the last year the Fund produced a return of 8.1%, underperforming the benchmark by 0.1%. Over the period since inception the Fund produced as absolute return of 1.4%p.a., which was broadly in line with the benchmark return.
- Despite a high cash element, the Fund has produced a relatively low absolute return. Over the last year it has produced a return very close to the benchmark.
- Being passively managed the relative performance has been marginal over the last 12 quarters. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- There was no significant change to the asset allocation over the year.

Royal London Asset Management – Fixed Interest

Relative returns #1

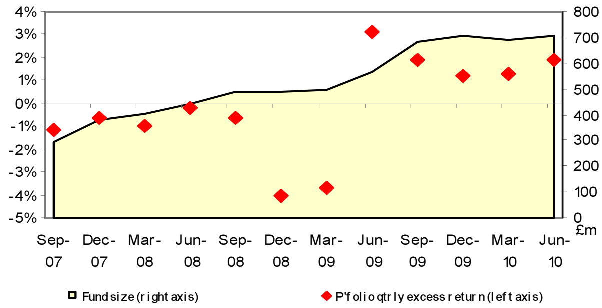


Monthly relative returns #2

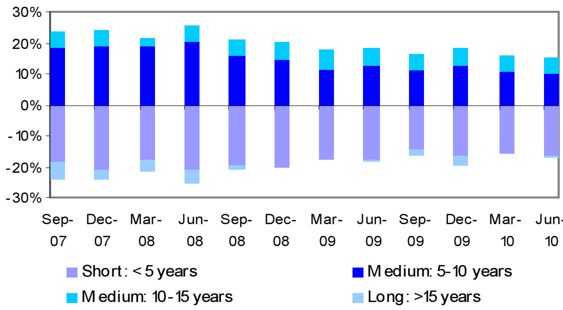


note: Q3 2007 is only a partial period of investment

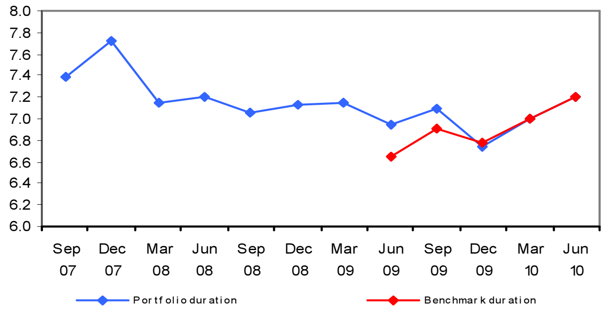
Performance v fund size #3



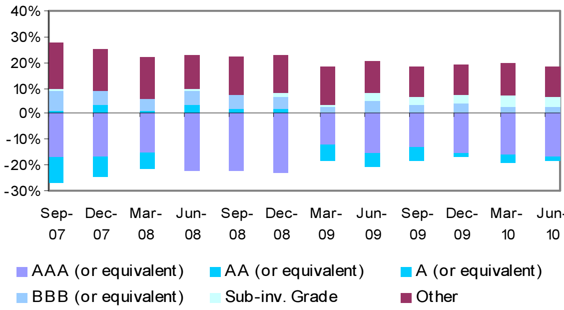
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter the Fund performed in line with the benchmark, producing an absolute return of 1.9%.
- Over the last year the Fund outperformed the benchmark by 4.6%, producing an absolute return of 20.5%. Over the period since inception the Fund underperformed the benchmark by 1.7% p.a., producing an absolute return of 3.9% p.a.
- The Fund performed in line with the benchmark over the last quarter, this is despite the portfolio being underweight to AAA, in favour of BBB, sub-investment and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity bonds.

Schroder – UK Property

- The mandate awarded to Schroders by the Fund commenced in February 2009.
- The Fund appointed Schroder 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.
- Due to the recency of the first investments into the portfolio, a full quantitative assessment of Schroder is not yet possible. However, we provide here a qualitative update and assessment of the manager.

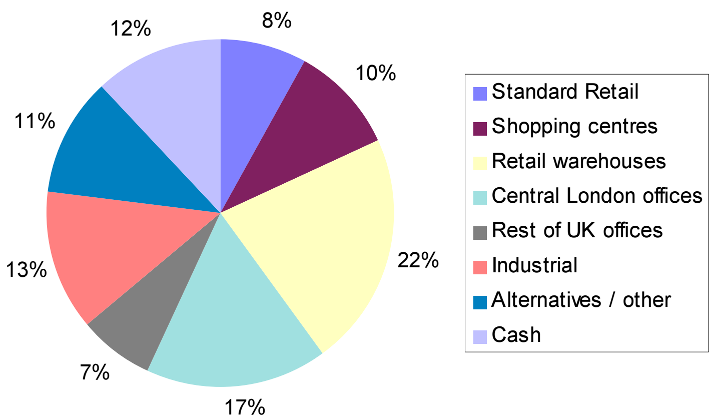
Portfolio update

As at 10 August 2010, approximately 84% of the Fund's £90million committed cash had been drawn by Schroder.

To date, the drawn down monies have been invested across 13 different underlying funds. Of these funds, 4 are "core" investments (comprising 58% of the total portfolio) and 9 are "value add" investments (the remaining 42% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 30 June 2010, was split between sectors as shown in the following chart.

Portfolio split by sector



In terms of relative positioning, the allocations above are, compared with the benchmark (the UK IPD Pooled Property Index), underweight standard retail, non-London offices and industrial properties and overweight in the other sectors. The most significant overweights are to central London offices and cash.

Although the portfolio is not yet fully invested the allocation is consistent with Schroder's outlook. For example, they believe that non-London offices may be vulnerable to government spending cuts, whereas central London offices, and the South East more generally, will be potentially more resilient. Cash is above benchmark levels due to one particular holding, the Hansteen UK Industrial Property Unit Trust, which has a high proportion of cash. However, with capital values now stabilising somewhat, Schroder are less concerned about the opportunity cost of holding cash than would have been the case twelve months ago.

Over the latest quarter, Schroder made two new investments, totalling approximately £1.6 million. The monies were invested into:

- The Columbus UK Real Estate Fund, which recently acquired its first asset in the form of a shopping centre in Motherwell, which Schroder note has a secure income profile with scope to increase the rental income. The price paid for the property was at a 45% discount to that paid in 2007 by the previous owner.
- The Henderson UK Retail Warehouse Fund, where Schroder believe that the underlying properties held are attractive, and debt is secured on favourable terms until the expiry of the fund

Performance over Q2 2010

Schroder produced a return of 3.6% over the three months to 30 June 2010, versus the benchmark return of 3.1%. The key drivers of the relative return over the period were:

- Allocations to the West End of London Property Unit Trust, the Standard Life Investments Pooled Pensions Property Fund and the Threadneedle Investments Strategic Property Fund IV.
- Investments with higher than average gearing levels, in particular value add and opportunity funds, have boosted returns over the quarter, and over the last twelve months as a whole.
- On the negative side, Schroder's circa 5% allocation to the Hansteen UK Industrial Property Unit Trust has disappointed, driven by this Unit Trust's high levels of uninvested cash, which has diluted returns. Schroder remain confident that this particular fund's strategy of buying high yielding multi-let industrial estates from distressed sellers will be successful over the longer term.

Conclusion

Schroder's intention when they were appointed was to fully establish the Fund's portfolio over a period of around 18 months, and this appears to be on track. The portfolio is diverse, as one might expect for a multi-manager vehicle, although even at this early stage evidence of Schroder's outlook can be seen in the portfolio positioning. Schroder do note that the portfolio sector structure and property fund allocations will be reviewed again once the portfolio is fully invested.

We have no concerns with Schroder. We also note that they are due to attend the September Investment Panel meeting, where their outlook and strategy will be discussed further.

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 £32.3 million of the Fund's intended commitment of approximately £90 million. The draw downs commenced in September 2009.

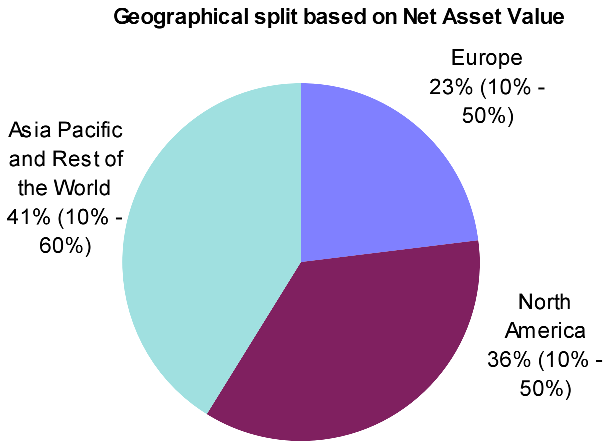
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

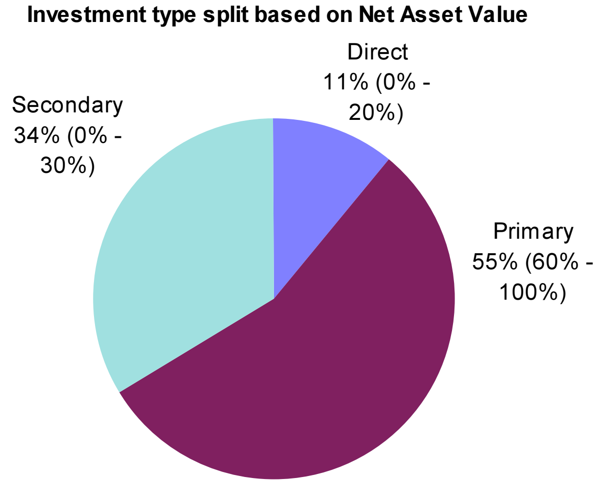
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ m)	Net Asset Value as at 30 June 2010 (£m)
Asia Pacific and Emerging Market Real Estate 2009	5.81	6.02
Distressed US Real Estate 2009	7.65	8.28
Global Real Estate 2008	15.65	14.54
Real Estate Secondary 2009	3.22	3.17
Total	**32.33**	**32.01**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 2010, 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

The geographical allocation shown is consistent with Partners' current investment outlook, which favours Asia Pacific and Emerging Markets on the grounds that such economies will drive future global growth. In contrast, Partners believe that Europe's sovereign debt crisis creates risks on the downside for Europe, hence the relative underweight to this region. Partners are have a broadly neutral view with respect to North America, and the current overweight to this region is expected to reduce as further draw downs are made.

In terms of the portfolio allocation by investment type, currently Partners are underweight primary investments and this allocation is below the lower bound of the investment restrictions in place for the longer term portfolio, with a commensurate overweight to secondary investments.

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. Additionally, the overweight to secondary investments reflects Partners' strong view that this market offers attractive value.

Encouragingly, the Fund's portfolio has already experienced its first distributions (to date, distributions of approximately £0.61 million have been paid). This would ordinarily be unexpected from a private investment portfolio, however, Partners' use of secondary vehicles, many of which they have been able to purchase at a discount from distressed sellers, are at the stage where distributions are being made.

Performance over Q2 2010

Partners produced a return of 2.0% over the three months to 30 June 2010. Information for the portfolio's stated benchmark (the IPD Global Pooled Property Index) is not yet available. We do note that the Partners portfolio proved a good diversifier from global equities over this short period. Performance attribution for

Partners is unavailable at this point, as benchmark data is not yet published and the Fund's investments are at such an early stage.

Conclusion

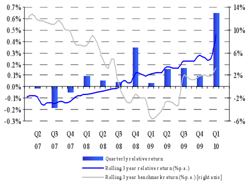
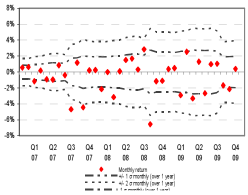
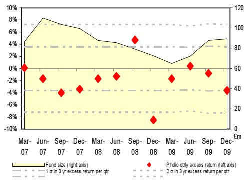
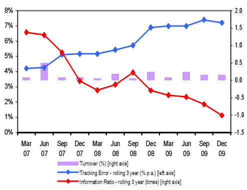
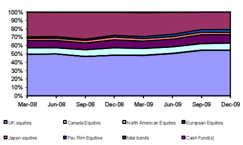
The early stages of investment in a private real estate portfolio are about establishing a diversified portfolio whilst aiming to mitigate the "J curve effect" (the tendency of private investments to deliver negative returns in early years, driven by initial costs, and positive returns in later years as the portfolio matures).

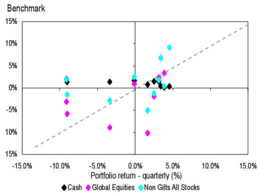
Although it remains very early days for Partners, they have stuck to their stated approach of building a diverse portfolio by region, type of investment (primary, secondary and direct), and by vintage year. The manager has employed a strategy whereby value opportunities are attained via the purchase of perceived high quality funds at discounts from distressed sellers, and growth is sought by overweighting Emerging Markets. This appears to be a sensible approach to mitigating the impact of the J-curve effect

We have no concerns with Partners. We also note that they are due to attend the September Investment Panel meeting, where their outlook and strategy will be discussed further.

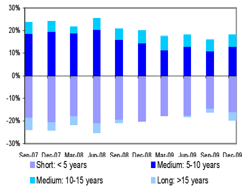
Appendix A - Glossary of Charts

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

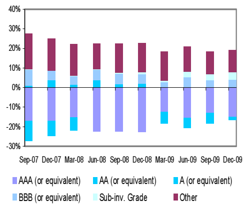
Reference		Description
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark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

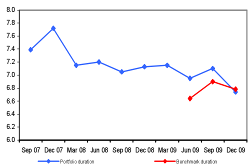
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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

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

JLT Benefit Solutions

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