Review for period to 31 March 2012

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

Section One – Executive Summary 3

Section Two – Market Background 4

Section Three – Fund Valuations 7

Section Four – Performance Summary 9

Section Five – Individual Manager Performance 16

Jupiter Asset Management – UK Equities (Socially Responsible Investing) 18

TT International – UK Equities (Unconstrained) 19

Schroder – Global Equity Portfolio (Unconstrained) 20

Genesis Asset Managers – Emerging Market Equities 22

Invesco – Global ex-UK Equities (Enhanced Indexation) 23

SSgA – Europe ex-UK Equities (Enhanced Indexation) 24

SSgA – Pacific incl. Japan Equities (Enhanced Indexation) 25

MAN – Fund of Hedge Funds 26

Signet – Fund of Hedge Funds 27

Stenham – Fund of Hedge Funds 28

Gottex – Fund of Hedge Funds 29

Schroder – UK Property 30

Partners – Overseas Property 31

Royal London Asset Management – Fixed Interest 31

BlackRock – Passive Multi-Asset 34

BlackRock No.2 – Property account ("ring fenced" assets) 35

Appendix A – Market Events 36

Appendix B – Glossary of Charts 41

Appendix C – Summary of Mandates 43

Bekki Jones, BSc (Hons), IMC
Principal Analyst

Jig Sheth, BSc, IMC
Consultant

May 2012

Avon Pension Fund

Section One – Executive Summary

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

Fund

- The value of the Fund's assets increased in value by £134m during the first quarter of 2012 to £2,757m. The total Fund, (including the impact of currency hedging), broadly performed in line with the Fund's customised benchmark over the quarter, producing a positive absolute return of 5.1%.
- Manager performance is discussed below.

Strategy

- Equity markets posted strong positive returns and had a positive impact on the Fund's total return. The Fund's UK corporate bond portfolio also had had a positive impact on returns, but to a lesser extent than equities.
- The allocations to Fund of hedge funds and property contributed positively to the absolute total Fund return, albeit to a lesser extent than equities.

Managers

- The strongest outperformance over the quarter came from Jupiter, outperforming its benchmark by 2.8%. TT International, the other UK equity manager, also outperformed its benchmark, by 1.0%.
- The Schroder global equity mandate marginally outperformed its benchmark but all other overseas equity managers underperformed their respective benchmarks, albeit marginally.
- The Schroder property portfolio marginally underperformed its benchmark over the quarter whilst Partners also underperformed, by 0.5%.
- Three of the four fund of hedge fund managers outperformed their benchmarks over the quarter. Man was the only hedge fund manager to underperform its benchmark. Whilst Man has the highest outperformance target, it also produced the lowest absolute return of the fund of hedge fund managers over the quarter.
- Royal London outperformed its corporate bond benchmark (3.1% vs 2.7%).

Key points for consideration

- Man is making changes both to the number of underlying managers that it holds, as well as how it invests with those managers. Whilst the changes themselves should be seen as positive, it remains to be seen whether Man have the ability to successfully implement them, particularly given a poor period of performance. Closer monitoring is continuing by the Panel and Officers.
- The Fund has taken a tactical position to increase its holdings with RLAM corporate bonds in favour of investments in government bonds. Monitoring of this switch is continuing to ensure that a switch back into government bonds takes place in the future at an opportune time.
- Therefore the performance of RLAM, and corporate bonds vs gilts in general, should be monitored closely.

Section Two – Market Background

- The table below summarises the various market returns to 31 March 2012, which relates 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	6.1	1.4
Overseas Equities	9.4	-0.3
USA	9.7	8.8
Europe	10.0	-11.8
Japan	7.9	0.9
Asia Pacific (ex Japan)	9.6	-6.3
Emerging Markets	10.6	-8.6
Property	0.9	6.6
Hedge Funds	4.2	-0.3
Commodities	3.0	-5.9
High Yield	4.5	5.5
Cash	0.1	0.6

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	2.8	-0.3
Against Euro	0.2	6.2
Against Yen	10.0	-1.0
Yields as at 31 March 2012	**% p.a.**	
UK Equities	3.5	
UK Gilts (>15 yrs)	3.3	
Real Yield (>5 yrs ILG)	-0.1	
Corporate Bonds (>15 yrs AA)	4.6	
Non-Gilts (>15 yrs)	4.9	

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-4.4	22.6
Index-Linked Gilts (>5 yrs)	-2.0	21.1
Corporate Bonds (>15 yrs AA)	-0.4	13.7
Non-Gilts (>15 yrs)	0.5	12.3

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	0.3	-1.0
Index-Linked Gilts (>5 yrs)	0.1	-0.7
Corporate Bonds (>15 yrs AA)	-0.1	-0.9
Non-Gilts (>15 yrs)	0.1	-0.6

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	0.6	3.6
Price Inflation - CPI	0.4	3.5
Earnings Inflation	0.8	2.0

Economic statistics

	Quarter to 31 March 2012			Year to 31 March 2012		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.3%	0.7%	0.5%	0.0%	1.6%	2.1%
Unemployment rate	8.3%	10.3%	8.2%	8.3%	10.3%	8.2%
Previous	*8.4%*	*10.1%*	*8.5%*	*7.7%*	*9.4%*	*8.9%*
Inflation change[2]	0.4%	1.0%	1.6%	3.5%	2.7%	2.7%
Manufacturing Purchasing Managers' Index	51.9	47.7	53.4	51.9	47.7	53.4
Previous	*49.6*	*46.9*	*53.1*	*56.7*	*50.4[4]*	*59.4*
Quantitative Easing / LTRO [3]	£325bn	€1,018bn	$2,654bn	£325bn	€1,018bn	$2,654bn
Previous	*£275bn*	*€489bn*	*$2,654bn*	*£200bn*	*€0bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 March 2012 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) CPI inflation measure; (3) Refers to amounts announced and therefore ignores changes due to debt maturing. LTRO refers to the European Central Bank's Long Term Refinancing Operation. (4) As at June 2011.

Statistical highlights

- Twelve month CPI inflation has fallen to 3.5% in March, down from its recent peak of 5.2% in September 2011. The Bank of England ("BOE") stated that whilst the recent fall in CPI inflation had been as expected, the extent of any further decline is less certain. The Monetary Policy Committee ("MPC") maintained interest rates at 0.5%.
- Early indicators of consumer spending at the beginning of the year were mixed. Retail sales rose by 0.9% in January and by 1.3% over the last quarter. Other indicators were less positive, as consumer confidence had remained weak. The latest CBI Distributive Trades Survey reported that retail sales volumes were broadly flat in the year to February, although this represented a significant improvement on January.
- The Office for National Statistics ("ONS") reported another rise in unemployment although at it's slowest pace for a year. It reached 2.67 million during the three months to January 2012, taking the unemployment rate up to 8.4%. This figure compares favourably with the Eurozone area where the unemployment rate was 10.8% as at February 2012.
- The European Central Bank ("ECB") benchmark interest rate remained unchanged at 1%. The US Federal Reserve made the unprecedented move of announcing that it expected to keep interest rates below 1% until at least 2014. In Asia, the Bank of Japan continues its policy of quantitative easing and the People's Bank of China has begun to cautiously loosen monetary policy by reducing bank reserve ratio requirements.

- The first round of the European Central Bank long-term refinancing operation (LTRO) in December 2011, totalled €489 billion. A second round in February 2012, totalled €529.5 billion. By providing liquidity to the banking system, and accepting collateral in the form of government bonds, the operation is expected to provide time for banks to repair their finances.
- The FTSE All Share Index produced a return over the quarter of 6.1%. European equities produced returns of 10.0%, despite the ongoing concerns regarding sovereign debt in the Eurozone. Emerging Markets were the strongest performers, producing returns of 10.6%. The US, Asia Pacific and Japan equity market all produced positive absolute returns over the quarter.
- UK long dated gilts produced negative returns over the quarter. Despite the slight increase in yields, many still believe that gilt yields are at an unsustainable low level and that further increases are likely over time.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 March 2012, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 March 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	540,100	19.6	18.0
Overseas Equities	1,112,300	40.3	42.0
Bonds	643,200	23.3	20.0
Fund of Hedge Funds	213,600	7.8	10.0
Cash (including currency instruments)	51,100	1.9	-
Property	197,000	7.1	10.0
TOTAL FUND VALUE	**2,757,300**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £134m over the first quarter of 2012 to £2,757m, resulting from positive absolute investment performance.
- In terms of asset allocation, there have been a number of changes over the quarter:
  - During the quarter there was a disinvestment from the BlackRock Passive Multi-Asset fund which was transferred to Record Currency Management. These funds will be equitized (invested in UK FTSE futures) to efficiently manage the cashflows arising from the currency hedging programme. The futures were due to be purchased on 2 April 2012.
  - There was some further funding of property investment with Partners over the quarter, with monies coming from the BlackRock (property) portfolio.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 December 2011		Net new money £'000	31 March 2012	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	106,118	4.0	-	115,581	4.2
TT International	UK Equities	125,396	4.8	-	134,334	4.9
Invesco	Global ex-UK Equities	159,421	6.1	-	173,237	6.3
Schroder	Global Equities	129,764	4.9	-	141,812	5.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	79,401	3.0	-	86,241	3.1
Genesis	Emerging Market Equities	127,334	4.9	-	140,617	5.1
MAN	Fund of Hedge Funds	62,441	2.4	-	63,099	2.3
Signet	Fund of Hedge Funds	63,048	2.4	-	64,379	2.3
Stenham	Fund of Hedge Funds	32,717	1.2	-	33,272	1.2
Gottex	Fund of Hedge Funds	51,399	2.0	-	52,820	1.9
BlackRock	Passive Multi-asset	1,185,907	45.1	-11,931	1,224,804	44.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	75,350	2.9	-2,650	73,308	2.7
RLAM	Bonds	220,765	8.4	-	227,557	8.3
Schroder	UK Property	128,107	4.9	-	129,011	4.7
Partners	Property	67,180	2.6	2,650	70,394	2.6
Record Currency Mgmt		-6,383	-0.2	1,233	339	0.0
Record Currency Mgmt 2	Overseas Equities	0	0.0	10,698	10,698	0.4
Internal Cash	Cash	14,891	0.6	-	15,833	0.6
Rounding		0	0.0	-	1	0.0
TOTAL		**2,622,856**	**100.0**	**0**	**2,757,337**	**100.0**

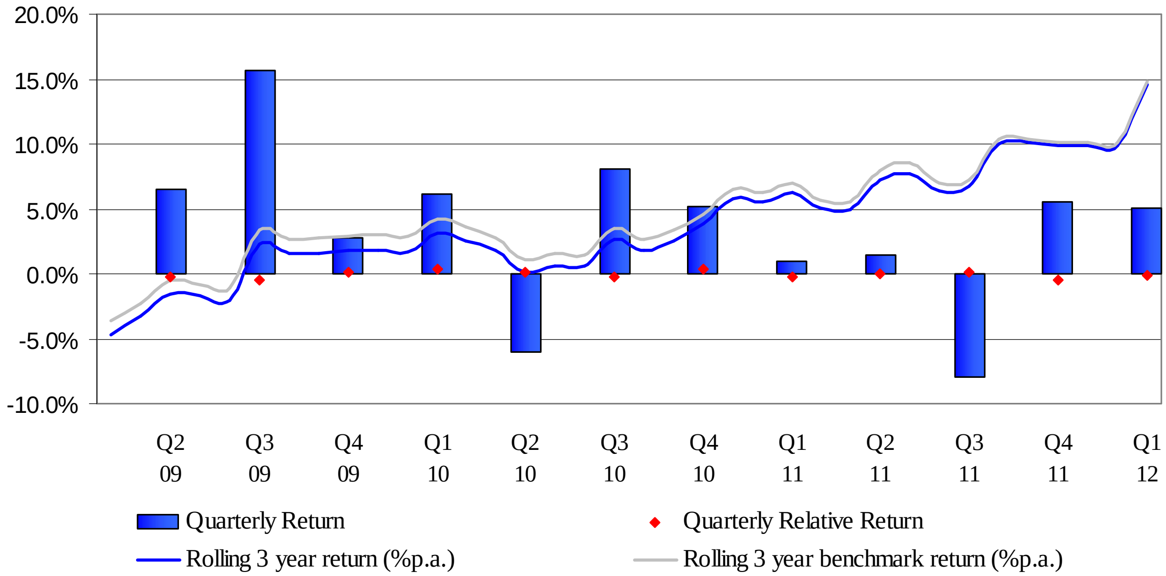
Source: Avon Pension Fund, Data provided by WM Performance Services.

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

- Over the last quarter (blue bars) the total Fund's assets produced a return of 5.1%, performing in line with the customised benchmark (this analysis includes the impact of currency hedging). Excluding the impact of currency hedging, the Fund marginally outperformed the customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a return of 3.6%, underperforming the customised benchmark by 0.6% (this analysis excludes the impact of currency hedging).
- There is a considerable improvement in the rolling 3 year returns for the total Fund, primarily due to positive absolute returns generated in Q1 2012, along with the exclusion of Q1 2009 from the 3 year calculations in which the total Fund had returned -7.3%. The rolling 3 year return of the total Fund now stands at 14.5% p.a. which is slightly behind the benchmark return of 14.8% p.a..

Strategy performance

- The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 31 March 2012.

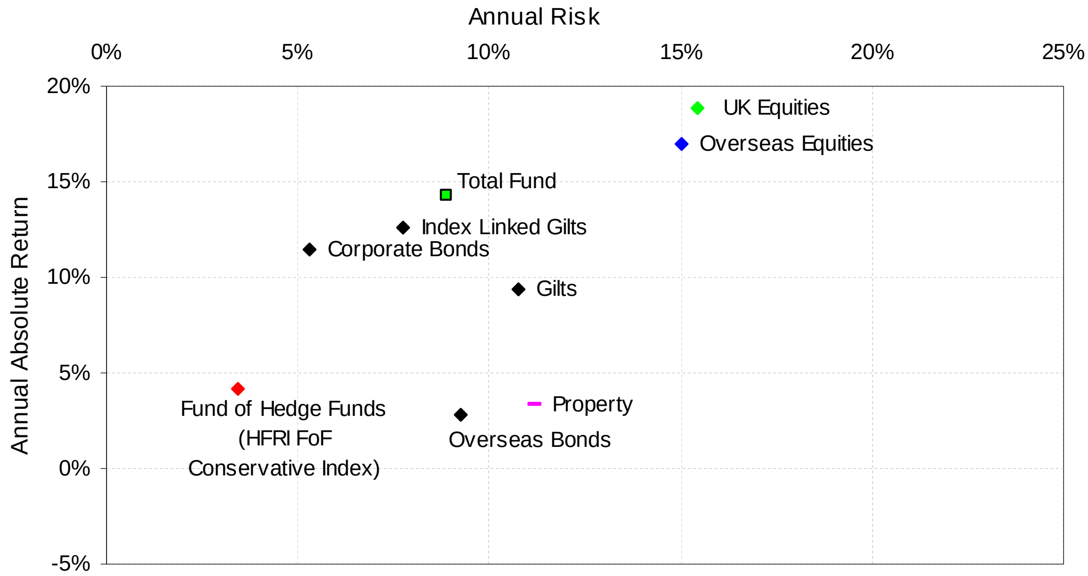
Asset Class	Weight in Strategic Benchmark	Q1 2012 (index returns)	1 year (index returns)
UK Equities	18%	6.1%	1.4%
Overseas Equities	42%	9.4%	-0.3%
Index Linked Gilts	6%	-1.5%	18.1%
Fixed Coupon Gilts	6%	-1.7%	14.5%
UK Corporate Bonds*	5%	4.0%	8.0%
Overseas Fixed Interest	3%	-3.7%	5.4%
Fund of Hedge Funds	10%	4.2%	-0.3%
Property	10%	0.9%	6.6%
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.

- **Market impact:** despite the ongoing concerns regarding sovereign debt in the Eurozone, markets produced positive returns as there continued to be positive signs of improvement in the US economic recovery and supportive policies by the US Central Bank. Emerging markets were the strongest performers.
- UK and overseas equity markets produced returns of 6.1% and 9.4% respectively.
- Sterling strengthened against the US Dollar Euro and the Yen over the quarter, meaning a lower return on the US Dollar Euro and Yen denominated overseas equities in sterling terms. All the major equity markets produced positive returns for the quarter in local currency and Sterling terms.
- Spreads on corporate bonds narrowed as gilt yields rose and corporate bond yields fell, resulting in negative absolute returns on gilts and a positive return for corporate bonds.
- The allocations to fund of hedge funds and property posted low absolute returns relative to equities.

- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately 1.1% and 3.9% respectively to the strategic benchmark return.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) both contributed -0.1%.
- 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 March 2012 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 16.

3 Year Risk v 3 Year Return to 31 March 2012



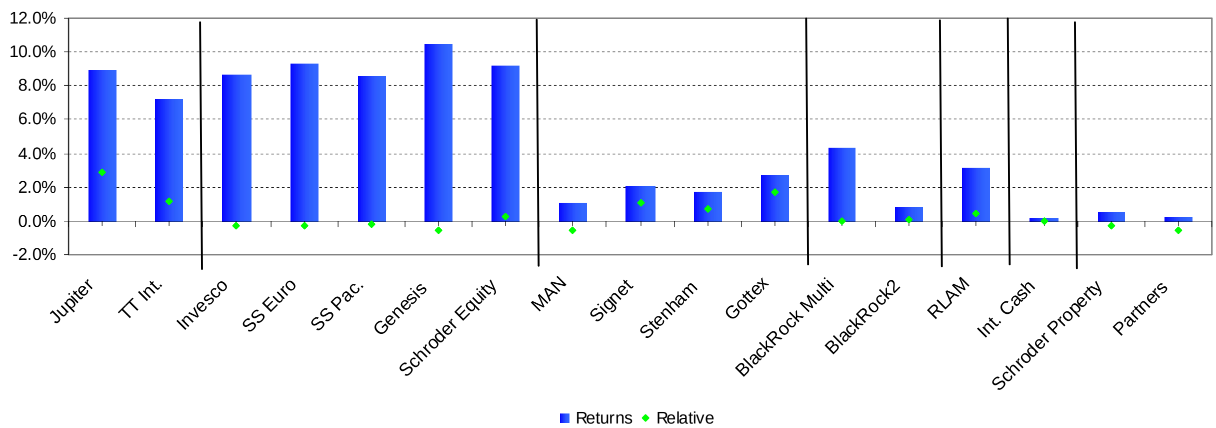
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period.
- Compared to the three year period reported the previous quarter, both UK and overseas equities have higher return and lower risk. The risk and return from gilts and index-linked gilts remains about the same whereas the return from corporate bonds has increased.
- Fund of Hedge Funds continue to be the least volatile asset class but have enjoyed superior performance compared to overseas bonds and property, the latter of which has fallen in return since the previous quarter's analysis.

Aggregate manager performance

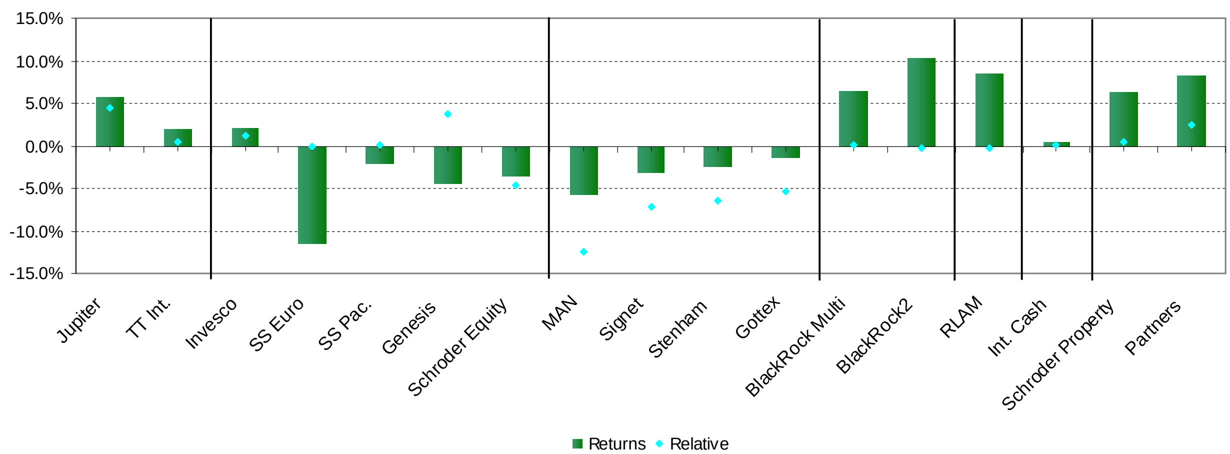
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of March 2012. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 31 March 2012

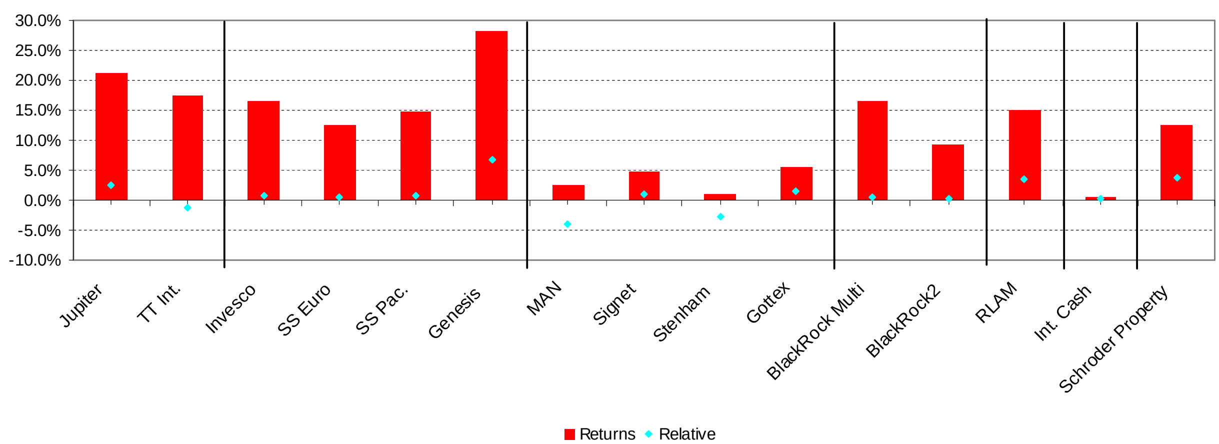


Performance numbers for Record were unavailable at the time of writing this report.

Absolute and relative performance - year to 31 March 2012



Absolute and relative performance - 3 years to 31 March 2012



Source: Data provided by WM Performance Services

- Jupiter and TT both produced positive absolute and relative returns over the quarter and the year. Over the three year period, both managers produced strong absolute returns. On a relative basis over the 3 year period, however, Jupiter outperformed its benchmark by 2.4% p.a. while TT underperformed by 1.2% p.a..
- Within overseas equities, all managers produced positive absolute performance over the quarter. Except for Schroder Equity, all the funds underperformed their respective benchmarks albeit marginally. The worst underperformance came from Genesis over the quarter of -0.60%. Performance over the 1 year period was mixed for the overseas equity managers. Invesco continued to be the only overseas equity fund to produce a positive absolute return whereas the remaining managers posted negative absolute returns. Invesco and Genesis continued to outperform their respective benchmarks over the 1 year period, whereas Schroders equity underperformed its benchmark. SSgA Europe and SSgA Pacific marginally underperformed and outperformed respectively by 0.1% over the 1 year period. The absolute performance over the 3 year period was strong across all overseas equity managers. Most notable, however, on an absolute as well as relative basis was the performance posted by Genesis who posted an outperformance of 6.8% p.a. over the 3 year period.
- Over the quarter, all of the Fund's fund of hedge fund managers produced positive absolute returns. Man underperformed their benchmark whereas the other fund of hedge fund managers outperformed their benchmarks. Performance was disappointing over the 1 year period, as all managers produced negative absolute returns and underperformed their respective benchmarks. Over the 3 year period, all fund of hedge fund managers produced positive absolute returns, but only Gottex and Signet managed to outperform their benchmarks by 1.6% and 1.0% respectively. Man and Stenham underperformed their benchmark's by 4.0% p.a. and 2.8% p.a. respectively.
- RLAM produced a positive return over the quarter, and marginally outperformed its benchmark. Over the 1 year period, performance was positive in absolute terms but slightly behind the benchmark. Over the 3 year period, RLAM produced strong positive absolute and relative returns.
- Schroder property produced a positive absolute return over the quarter but underperformed the benchmark. Over the 1 and 3 year periods it produced a positive absolute and relative return. The performance over the quarter from Partners was positive in absolute terms, but behind the benchmark. Over the 1 year period, performance was positive and ahead of the benchmark.

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 March 2012 of each of the funds.

Source: Data provided by WM Performance Services

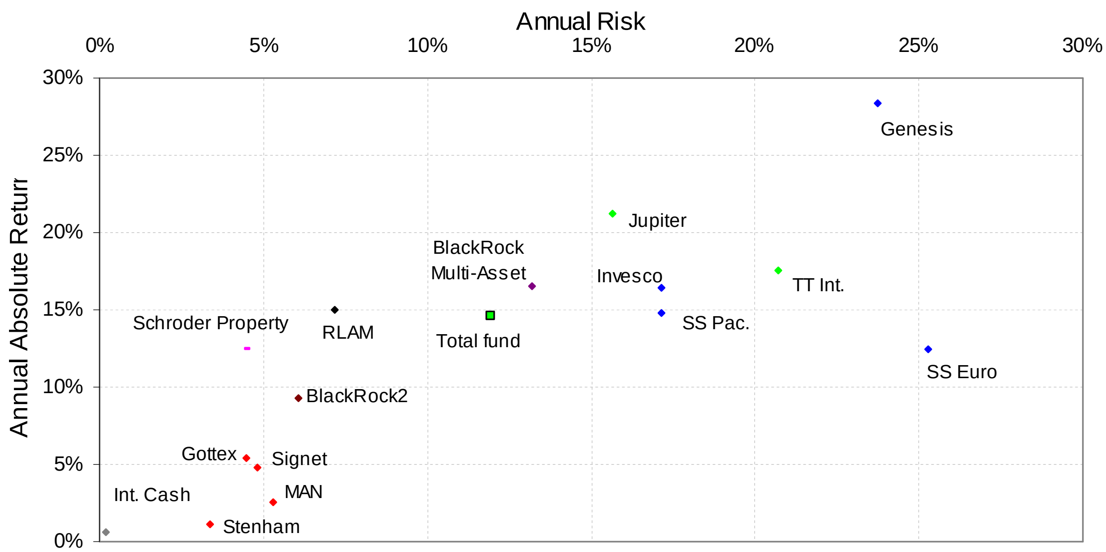
- The managers are colour coded by asset class, as follows:

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

- The majority of the equity funds have all seen an increase in risk combined with an increased return compared with the annual figure last quarter.
- There were minimal changes to the risk / return profile of the fund of hedge funds, RLAM and the BlackRock portfolios.

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

3 Year Risk v 3 Year Return to 31 March 2012



Source: Data provided by WM Performance Services

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

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

- Genesis has seen an improvement in the return whilst also experiencing an increase in the risk. This is also applicable to the returns from the other equity managers.
- There has been little change to the BlackRock 2 portfolio. The BlackRock multi asset portfolio has seen an increase in the annual return.
- RLAM has also seen an increase in the both the risk and the return.
- Fund of hedge funds have also seen some change, with a general trend towards increased risk and higher returns, albeit only slightly.
- Compared to the one year chart, all of the returns are 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

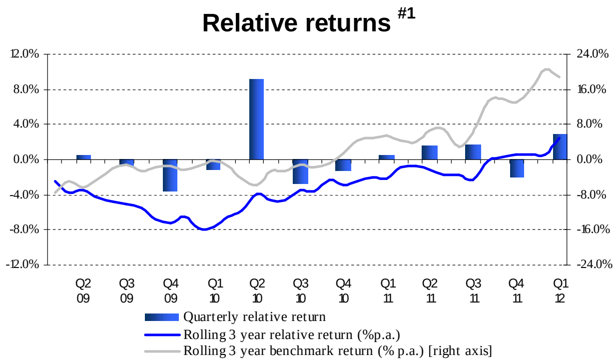
- We have not identified any significant issues with the performance of the majority of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, the performance of Man within the Fund's fund of hedge fund portfolio should be kept under close scrutiny given disappointing performance and a number of changes to the investment style. 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 outperformed its benchmark over the quarter by 2.8%.
  - TT International outperformed its benchmark over the quarter by 1.0%. Performance was also ahead of benchmark over the one year to 31 March 2012.
  - The unconstrained global equity manager, Schroder, produced a positive absolute return over the quarter, and marginally outperformed the benchmark.
- Enhanced Indexation Funds:

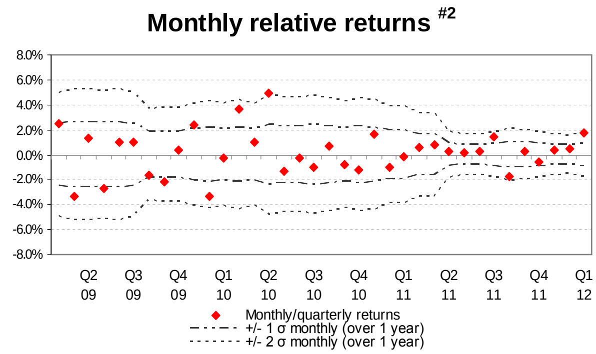
  The SSgA Europe ex UK Fund marginally outperformed its benchmark whilst the SSgA Pacific incl. Japan equity fund marginally underperformed its benchmark. Performance over the one year was broadly in line with the respective benchmarks.

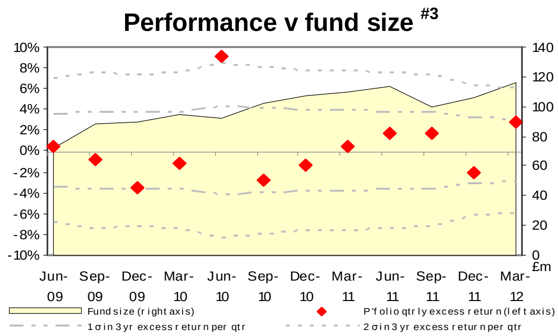
  Invesco underperformed its benchmark over the quarter by 0.3%, performance was positive in absolute terms. Over the one year performance was ahead of the benchmark by 1.2%. Performance over the 3 years was positive in absolute and relative terms. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark.
- Emerging Markets: Genesis underperformed its benchmark over the quarter but posted a positive absolute return. Performance over the longer 1 and 3 years also remains positive in relative terms.
- Fund of Hedge Funds:
  - Man produced a negative relative return of -0.6%, however produced a positive absolute return of 1.1%.
  - Signet produced a positive relative return over the quarter, outperforming the benchmark by 1.1%. In absolute terms, Signet produced a return of 2.1%.
  - Stenham Asset Management produced a positive relative return for the quarter, 0.7% ahead of their benchmark, with an absolute return of 1.7%.

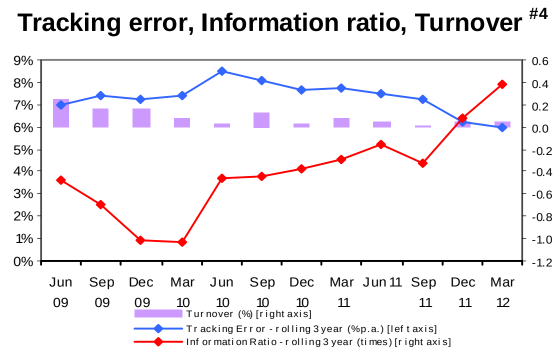
  - Gottex outperformed its benchmark over the quarter by 1.7%, producing an absolute return of 2.8%. The absolute return was the highest absolute return of all the fund of hedge fund managers.
  - Hedge funds, whilst producing positive returns, underperformed equities over the first quarter of 2012.
- 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 broadly in line with their respective benchmarks.
- UK Corporate Bonds: RLAM outperformed the benchmark in the last quarter by 0.4%. In absolute terms, RLAM produced a return of 3.1%. 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 6.2% which was ahead of the benchmark by 0.5%. Over the quarter, Partners produced a positive absolute return over the quarter, albeit behind the benchmark.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)









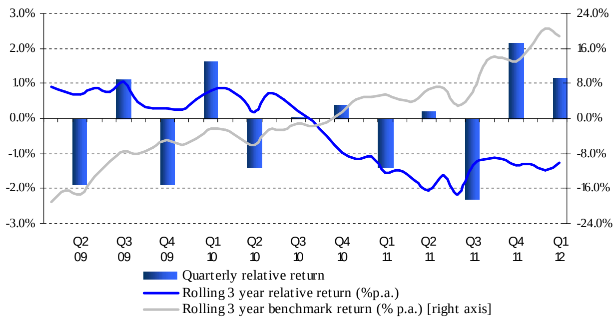
Source: Data provided by WM Performance Services, and Jupiter

Comments:

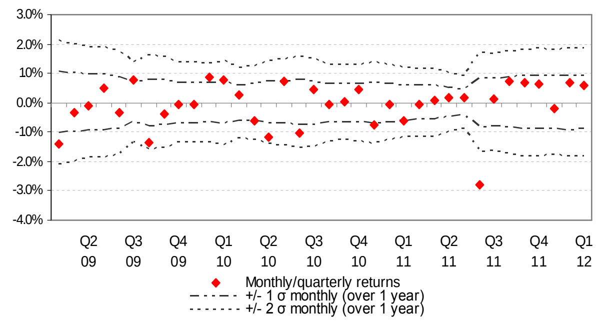
- Over the last quarter, the Fund outperformed the benchmark by 2.8%, producing an absolute return of 8.9%.
- Over the last year, the Fund outperformed the benchmark by 4.4%, producing an absolute return of 5.8%. Over the last 3 years, the Fund outperformed the benchmark by 2.4% p.a., producing an absolute return of 21.2% p.a. There has been a substantial change in the 3 year returns per annum compared to previous quarters primarily because of the weak performance from Q1 2009 (-10.8%) falling out of the 3 year calculations.
- The Fund's allocation to Cash (6.9%) increased compared to the preceding quarter (6.3%) but is still below the 7% limit.
- The industry allocation has remained considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q1 2012, Jupiter was significantly underweight Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services and Utilities. This relative allocation has been consistent with what was seen in Q4 2011.

TT International – UK Equities (Unconstrained)

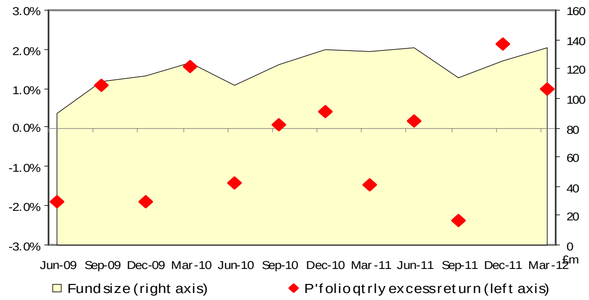
Relative returns #1



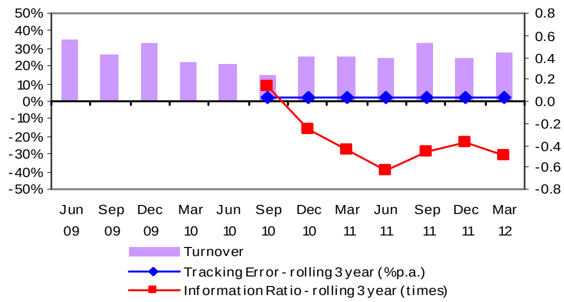
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



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

Comments:

- Over the last quarter the Fund outperformed the benchmark by 1.0%, producing an absolute return of 7.1%.
- Over the last year, the Fund outperformed the benchmark by 0.5%, producing an absolute return of 1.9%. Over the last three years, the Fund underperformed the benchmark by 1.3% p.a., producing an absolute return of 17.5% p.a.
- The Fund continued to hold an overweight position in Consumer Services by 4.3% and is significantly underweight to Financials by 4.2%.
- Turnover, over the first quarter, rose to 27.6% compared to the last quarter's number of 24.7%.
- 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), fell for the first time in four quarters from -0.38 in Q4 2011 to -0.50 in Q1 2012.
- TT continue to manage the beta of the portfolio (its tendency to move with the market) close to 1.
- Over the quarter TT's active allocation between sectors was detrimental to performance (-0.6%) but this was more than offset by positive security selection (+1.6%).
- The majority of the portfolio's risk continues to be taken in active stock selection, with active sector selection being the second largest area of risk at about one-third the size.
- The weight between these risks continues to be appropriate.

Schroder – Global Equity Portfolio (Unconstrained)

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

Portfolio update and performance over Q1 2012

The fund outperformed its benchmark by 0.2%, producing an absolute return of 9.2% over the quarter. The portfolio rose in value over the quarter by £12.0m.

The first quarter of 2012 saw risk assets, such as equities, producing strong returns. The Eurozone experienced some calm over the quarter; Greece secured a second bailout, which prevented a default. The market did however turn its attention to Spain, as the ECB continued its efforts to create stronger firewalls to protect both Spain and Italy from contagion.

Over the quarter, the Fund outperformed its benchmark. The outperformance of the Fund was driven by the relative returns from telecoms and financial stocks. Within financials Schroder's exposure to US banks, JPMorgan Chase and Goldman Sachs, was boosted by positive macro economic data emerging from the US and more optimism about the global economy. The Information Technology sector was the largest detractor with names such as Google and Hewlett- Packard not performing as strongly as expected.

On a regional basis, North America and Continental Europe were the key sources of adding value. Within Continental Europe, the portfolio's underweight position to telecoms added value, along with an overweight exposure to the region's consumer discretionary sector helping relative performance. Michelin and Safran were the strongest contributors within the region.

Emerging Markets detracted the most on a regional basis. Industrials (Beijing enterprises) and consumer staples (Brasil Foods) underperforming. Beijing enterprises suffered amidst concerns regarding Chinese growth and reported disappointing results. However, Schroder remains committed to the holding and believes that growth should accelerate throughout 2012 based on rising gas consumption in Beijing and good cost control.

The most underweight country weightings in the portfolio are North America (-6.7%), Continental Europe (-1.9%) and Japan (-1.9%). The portfolio is overweight to Pacific ex Japan (+2.5%), Emerging Markets (+2.0%), United Kingdom (+1.5%) and Africa and the Middle East (+1.5%).

In terms of sector weightings, the most underweight positions are to Telecoms (-2.5%), Utilities (-2.0%) and Healthcare (-1.3%). Overweight positions are in Consumer Discretionary (+3.0),Consumer Staples (+1.6%) and Cash (+3.0%).

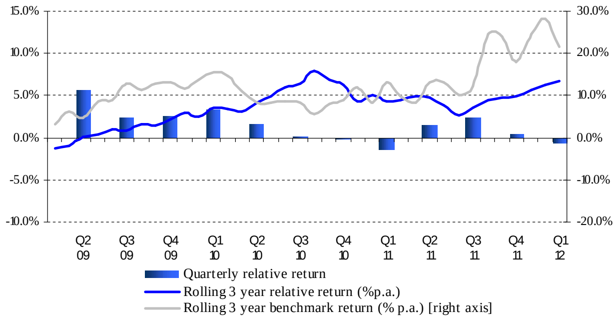
Conclusion

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

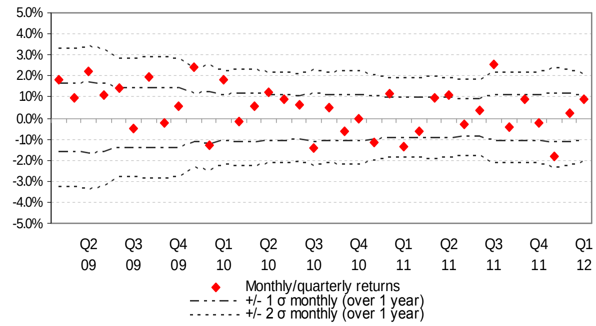
We have no concerns with Schroder.

Genesis Asset Managers – Emerging Market Equities

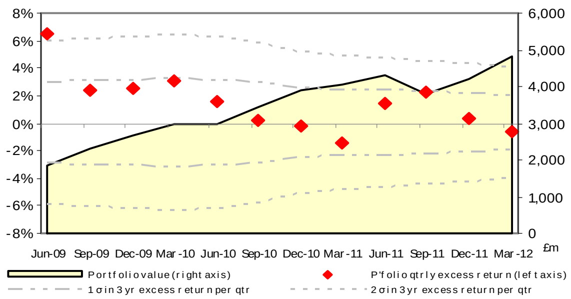
Relative returns #1



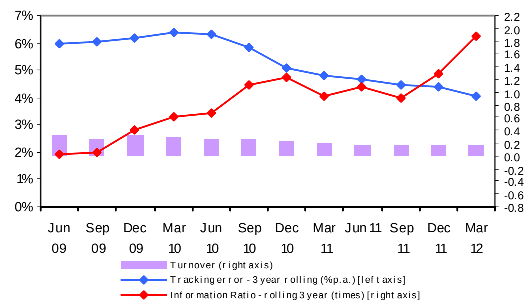
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



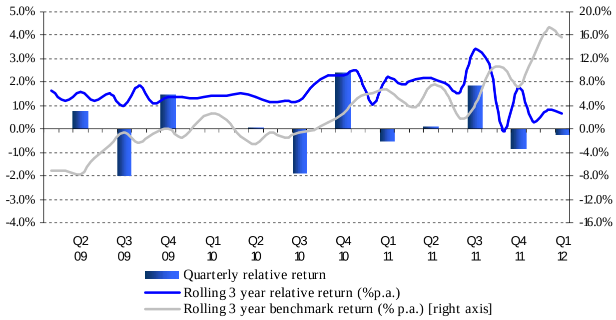
Source: Data provided by WM Performance Services, and Genesis

Comments:

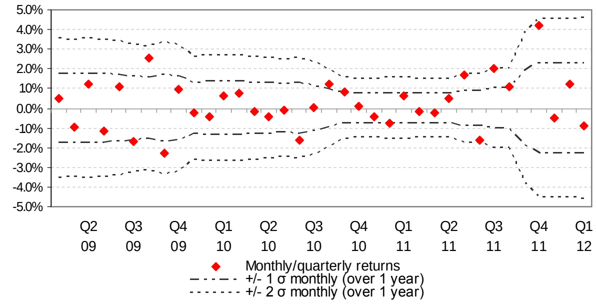
- Over the last quarter, the Fund underperformed the benchmark by 0.6%, producing an absolute return of 10.4%.
- Over the last year, the Fund outperformed its benchmark by 3.8%, producing an absolute return of -4.4%. Over the last 3 years, the Fund outperformed the benchmark by 7.3% p.a., producing an absolute return of 28.3% p.a.
- The Fund remains overweight to India and South Africa, and underweight Brazil, South Korea and China. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweight's are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) fell slightly from 4.4% in Q4 2011 to 4.1% in Q1 2012. The 3 year information ratio (risk adjusted return), increased from 1.3 to 1.9.
- The allocation to Cash (1.0%) decreased marginally compared to the previous quarter (1.1%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Financials (+3.8%) and Healthcare (2.7%). The Fund is underweight to Consumer Discretionary (-5.1%), Energy (-4.9%) and Telecom Services (-2.1%).
- It is particularly pleasing that Genesis has added value relative to the index during both positive periods for the benchmark and, as most recently, negative periods.

Invesco – Global ex-UK Equities (Enhanced Indexation)

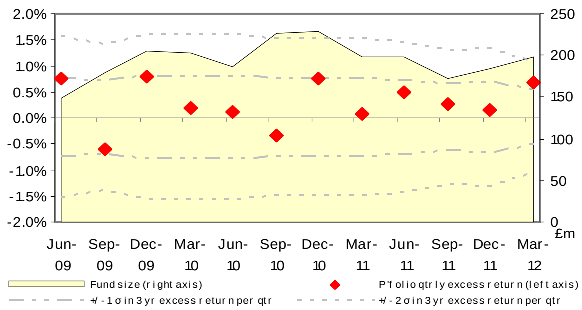
Relative returns #1



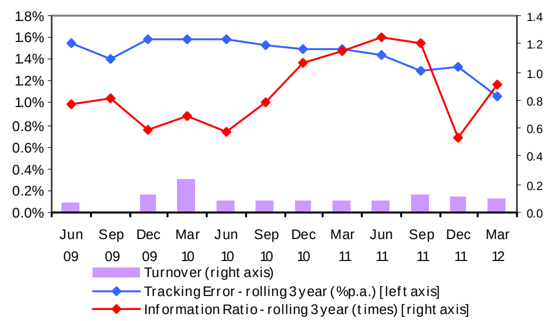
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



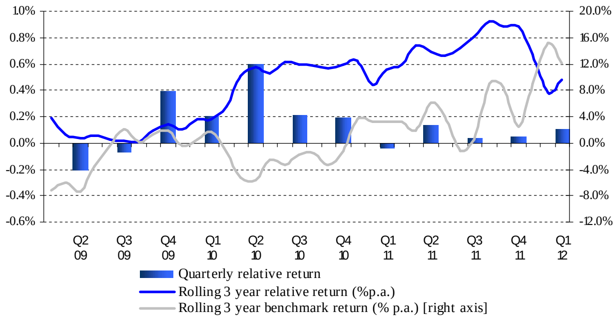
Source: Data provided by WM Performance Services, and Invesco

Comments:

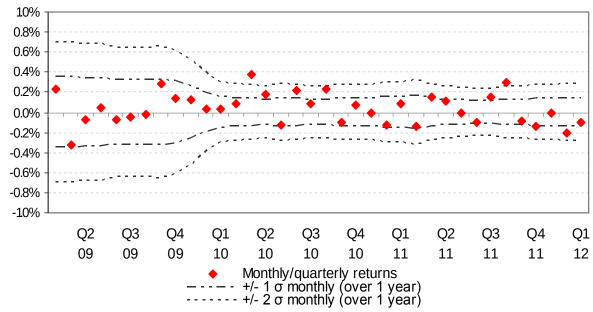
- Over the last quarter, the Fund underperformed its benchmark by 0.2%, producing an absolute return of 8.7%.
- Over the last year, the Fund outperformed its benchmark by 1.2%, producing an absolute return of 2.1%. Over three years, the Fund outperformed, by 0.7% p.a., producing an absolute return of 16.4% p.a.
- Over the last quarter, all strategies continued to be positive contributors except for Style. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The absolute volatility has increased to 12.1% at the end of the first quarter compared to 11.0% at the end of the fourth quarter.
- The turnover for this quarter of 10.0% decreased from 11.2% in the previous quarter. The number of stocks, also, fell from 401 to 373 over the quarter.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.2% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio is significantly more than is typical for an actively managed global equity portfolio but remains appropriate for the enhanced indexation approach.
- Invesco's performance continues to meet objective with a tracking error that is as expected for this type of portfolio.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

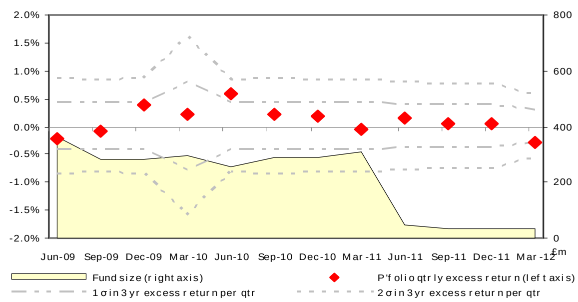
Relative returns [#1]



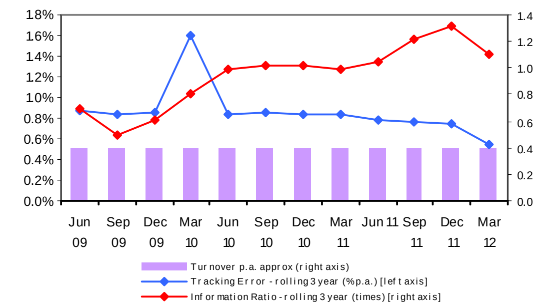
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



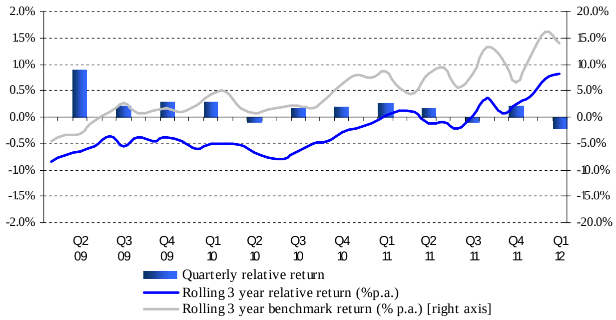
Source: Data provided by WM Performance Services, and SSgA

Comments:

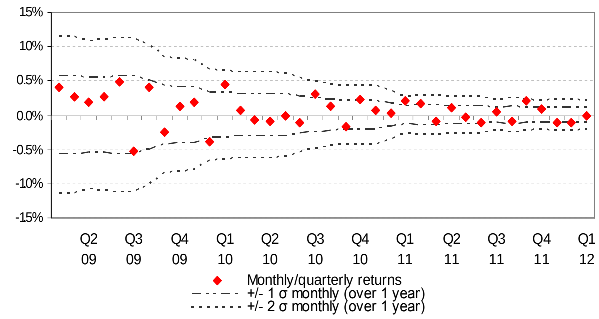
- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 9.5%.
- Over the last year, the Fund underperformed the benchmark by 0.1%, producing an absolute return of -11.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.7% p.a., producing an absolute return of 12.6% p.a. 3 year returns increased significantly primarily due to the exclusion of a weak Q1 2009 (-15.1%) from calculations and also from strong returns generated in this quarter.
- 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. However, there has been a marginal increase in the last two quarters of £1.1million and £3.0million in Q4 2011 and Q1 2012 respectively, albeit as a result of market movements.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. As an enhanced indexation fund the magnitude of the volatility is expected to be very low.
- Turnover has continued to remain consistent over the last 3 years. The tracking error has continued to decline over the last two quarters.
- The information ratio has fallen following an upwards trend, but still remains at a good level in terms of assessing relative performance.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

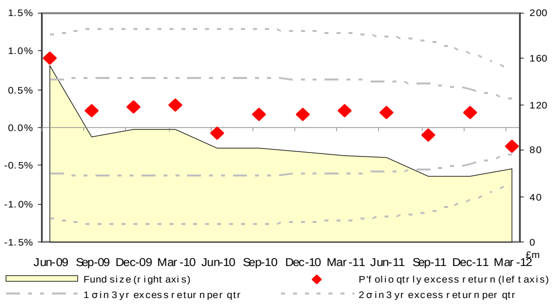
Relative returns #1



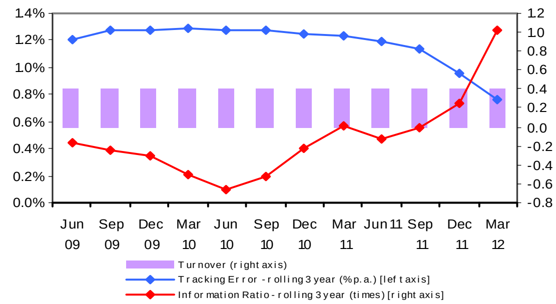
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



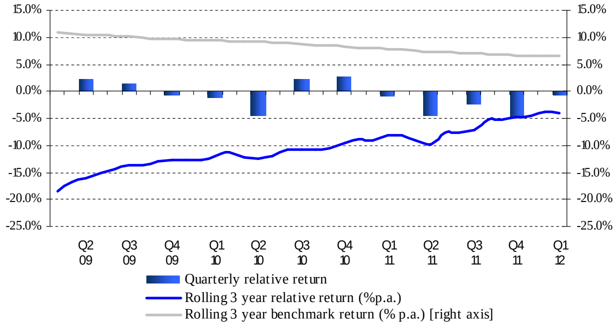
Source: Data provided by WM Performance Services, and SSgA

Comments:

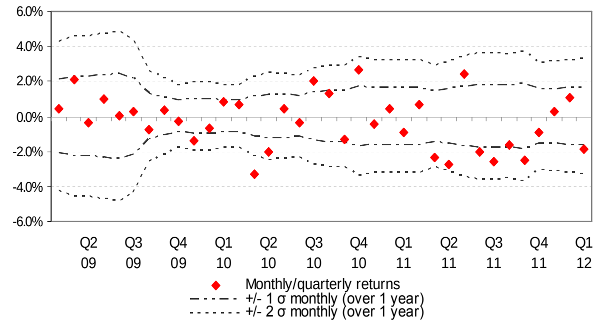
- Over the last quarter, the Fund underperformed the benchmark by 0.1%, producing an absolute return of 8.6%.
- Over the last year, the Fund outperformed the benchmark by 0.1%, producing an absolute return of -2.2%. Over the last 3 years, the Fund outperformed the benchmark by 0.9% p.a., producing an absolute return of 14.9% p.a. 3 year returns increased significantly primarily due to the exclusion of a weak Q1 2009 (-13.0%) from calculations and also from strong returns generated in this quarter.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- The information ratio has increased sharply given the relative difference between Q1 2009, which has fallen out of the analysis, and Q1 2012.
- At the same time, the tracking error of the fund has decreased. This is not necessarily inappropriate given the volatility in markets, as the manager may be cautious of volatile performance relative to the benchmark. However, it is important that this does not fall to such a level that the fund's outperformance target cannot be met.

MAN – Fund of Hedge Funds

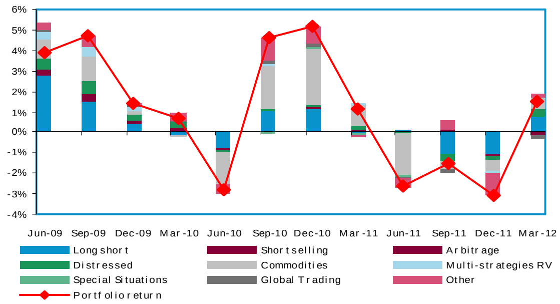
Relative returns [#1]



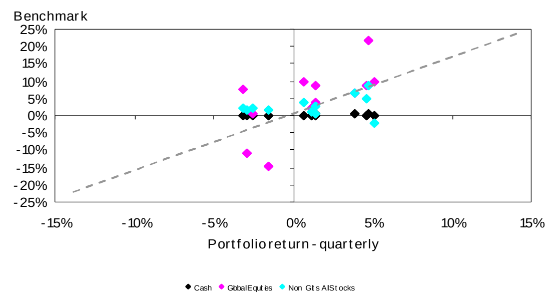
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



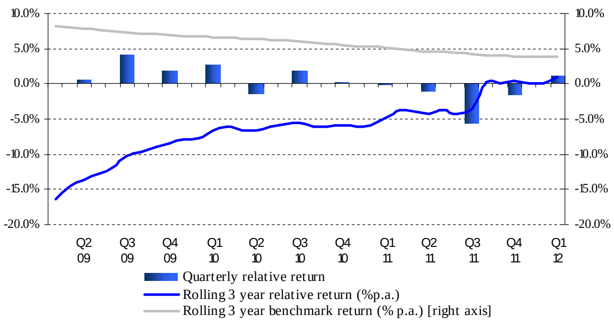
Source: Data provided by WM Performance Services, and MAN

Comments:

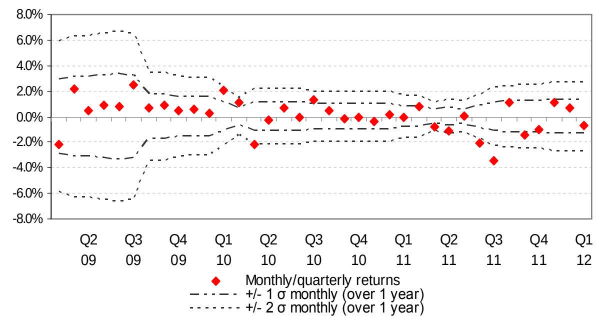
- Over the last quarter, the Fund underperformed the benchmark by 0.6%, producing an absolute return of 1.1%.
- Over the last year, the Fund underperformed the benchmark by 12.5%, producing an absolute return of -5.8%. Over the last 3 years, the Fund underperformed the benchmark by 4.1% p.a., producing an absolute return of 2.5% p.a.
- Man has a higher outperformance target than the other fund of hedge fund managers. This is partly responsible for a weaker relative performance, although Man has also been the worst performing fund of hedge fund manager in absolute terms over the last year.
- The fund is dramatically reducing the number of managers that it holds and increasing the use of managed accounts. These changes should be viewed as positive in theory but Man must show that the capability of managing assets in this manner exists.
- Whilst not generally used for rebalancing anyway, any allocation to the fund of hedge fund portfolio should be allocated to the other managers whilst Man transitions the portfolio.

Signet – Fund of Hedge Funds

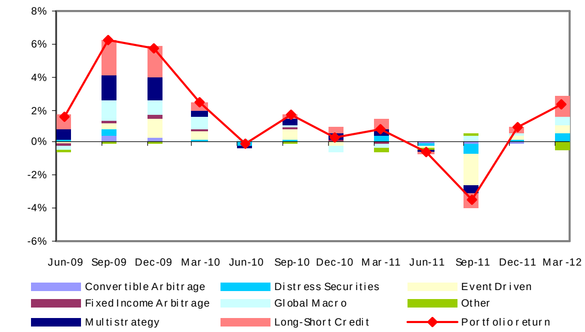
Relative returns [#1]



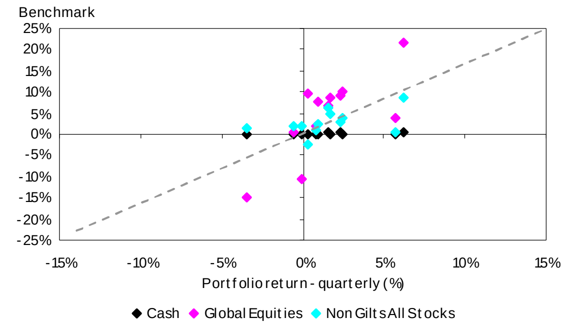
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



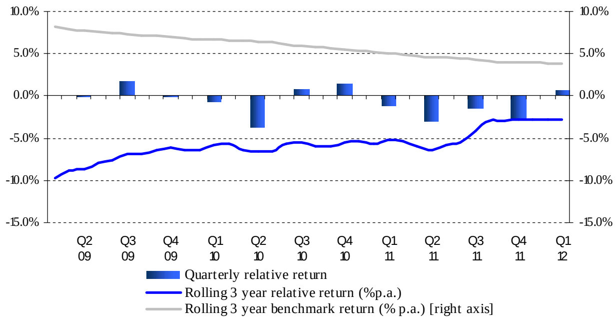
Source: Data provided by WM Performance Services, and Signet

Comments:

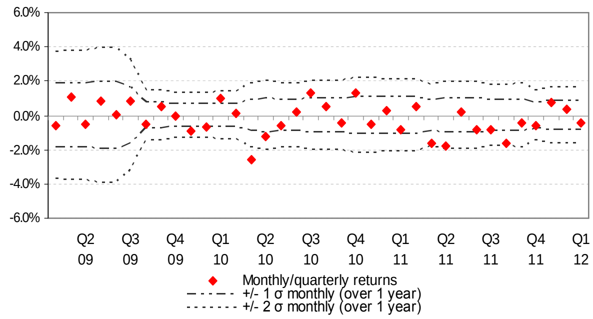
- Over the last quarter, the Fund outperformed the benchmark by 1.1%, producing an absolute return of 2.1%.
- Over the last year, the Fund underperformed the benchmark by 7.1%, producing an absolute return of -3.2%. Over the 3 year period, the Fund outperformed the benchmark by 1.0% p.a., producing an absolute return of 4.8% p.a.
- All strategies contributed to the positive absolute returns except for the Multi-strategy and Portfolio Protection strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

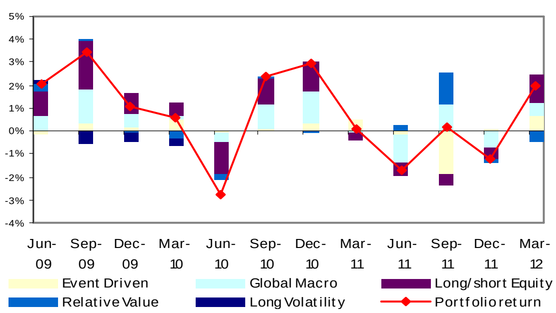
Relative returns [#1]



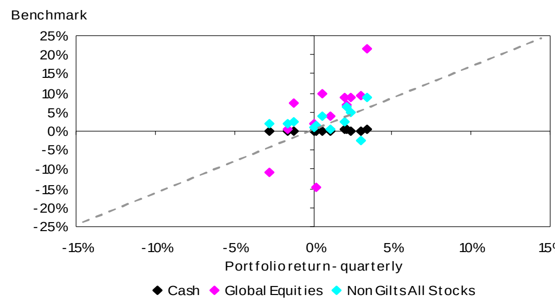
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]

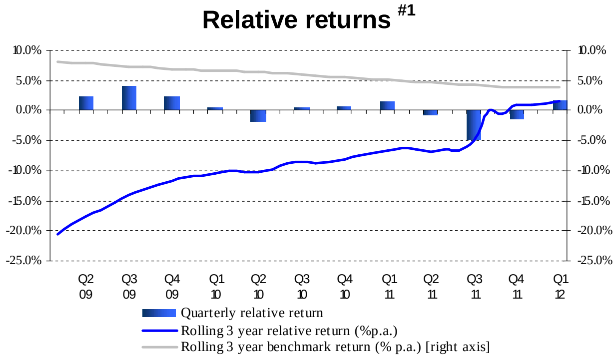


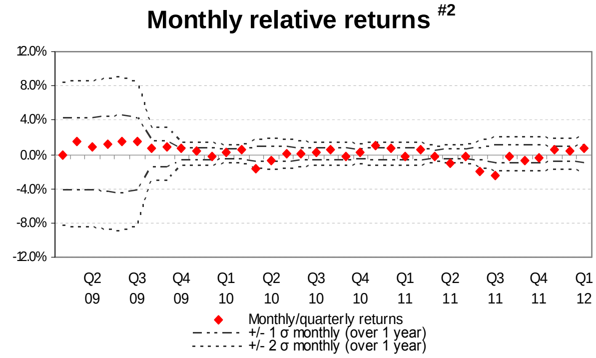
Source: Data provided by WM Performance Services, and Stenham

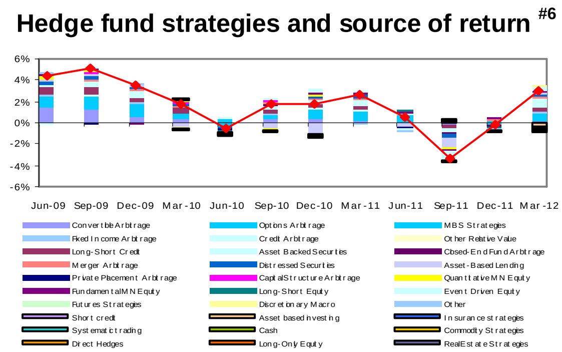
Comments:

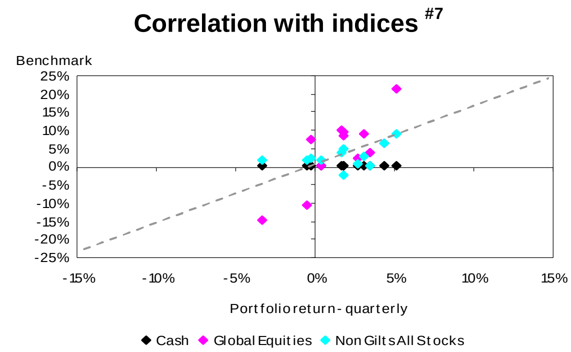
- Over the last quarter, the Fund outperformed the benchmark by 0.7%, producing an absolute return of 1.7%.
- Over the last year, the Fund underperformed the benchmark by 6.4%, producing an absolute return of -2.5%. Over the last 3 years, the Fund underperformed the benchmark by 2.7% p.a., producing an absolute return of 1.1% p.a.
- Relative value strategies were the largest detractors over the quarter. Positive contributors to performance came from Event Driven (7.3%), Long/Short Equity (4.8%) and Global Macro (1.8%) strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 70.0% of the total Fund allocation. The allocation to Cash continued to decrease from 6.0% to 2.0% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds









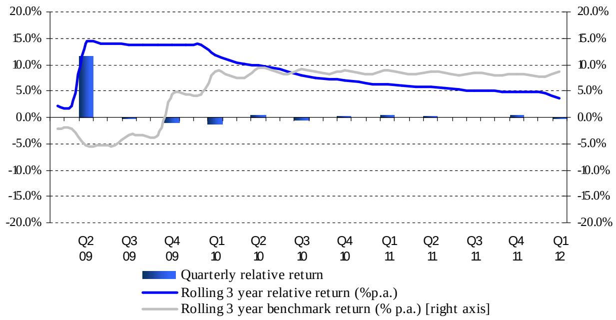
Source: Data provided by WM Performance Services, and Gottex

Comments:

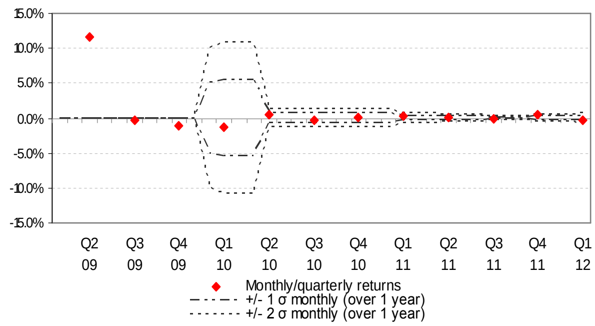
- Over the last quarter, the Fund outperformed the benchmark by 1.7%, producing an absolute return of 2.7%.
- Over the last year, the Fund underperformed the benchmark by 5.2%, producing an absolute return of -1.3%. Over the last 3 years, the Fund outperformed the benchmark by 1.8% p.a., producing an absolute return of 5.6% p.a.
- The Fund generated a positive return during the quarter. This was primarily led by Options Arbitrage strategies, Asset-Backed Securities and Distressed securities strategies. Positive performance was marginally offset by negative contributions from Asset Based Investing and Tail Risk funds.
- The Fund has a diverse range of strategy exposures, with continued major exposures to Asset Backed Securities, Fundamental Market Neutral Equity Strategy and Mortgage Backed Securities. Allocations to Options Arbitrage strategies decreased from 7.0% to 4.6% over the quarter while allocations to Fundamental MN Equity and Asset based investing strategies increased by 1.3% and 1.9% 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.

Schroder – UK Property

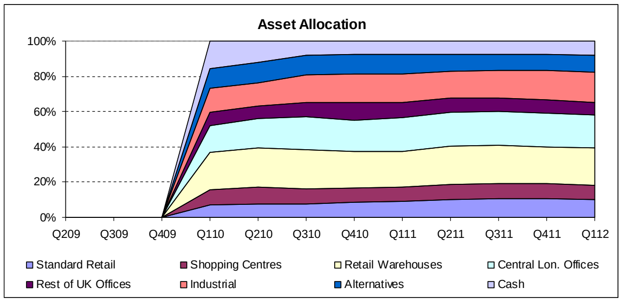
Relative returns [#1]



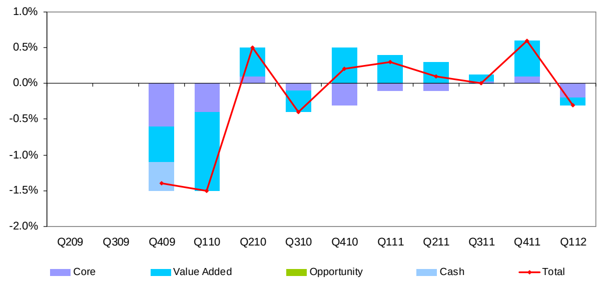
Quarterly relative returns [#2]



Asset Allocation [#5]



Contribution to relative return [#6]



Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund underperformed the benchmark by 0.3%, producing an absolute return of 0.5%.
- Over the last year, the Fund produced a return of 6.2%, outperforming the benchmark by 0.5%. Over the 3 year period, the Fund has produced a return of 12.6 % p.a., which is ahead of the benchmark by 3.7% p.a.
- Both the core and the value funds detracted from performance over the quarter, as did the cash holding. Positive contributions came from central London office exposure and properties generating a high income yield.
- The largest underweight position is to Standard Retail (-7.2%). The largest overweight position is to Central London Offices (+6.1%) but this is more than offset by the underweight position to Rest of UK Offices (-6.3%). The portfolio is therefore overweight to most other sectors in the +2-3% range.
- Schroder were appointed to manage UK Property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.

Partners – Overseas Property

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

Portfolio update

To date, Partners have drawn down approximately £68 million, or approximately 52% of the Fund's intended commitment of approximately £132 million. A total of £2.69 million was drawn down over the quarter. The draw downs commenced in September 2009.

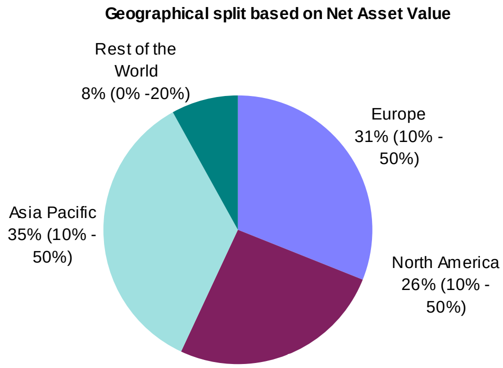
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

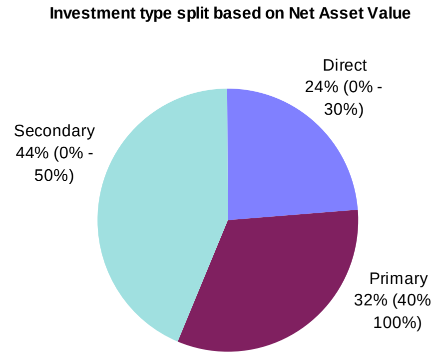
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 March 2012 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	15.25	17.02
Direct Real Estate 2011	4.23	4.01
Distressed US Real Estate 2009	18.57	18.15
Global Real Estate 2008	30.90	33.28
Global Real Estate 2011	8.87	9.32
Real Estate Secondary 2009	10.53	12.43
Total (£)	**67.67**	**70.33**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 31 March 2012.

The investments in the funds noted above have resulted in a portfolio that was, as at 31 March 2012, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

Changes to the geographical allocation to the portfolio over the quarter include an increase to North America from 25% to 26%, a corresponding decrease to Asia Pacific from 36% to 35% while Europe and the rest of the world allocation remained at 31% and 8% respectively.

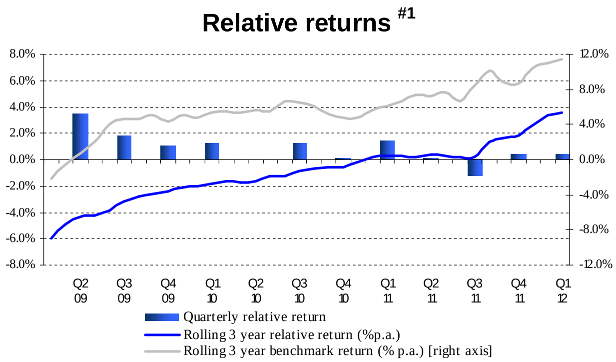
In terms of the portfolio allocation by investment type, the exposure to primary investments has increased from the position last quarter from 30% to 31%. The exposure to secondary investments has decreased from 45% to 44%, while the exposure to direct investments remained constant at 25%.

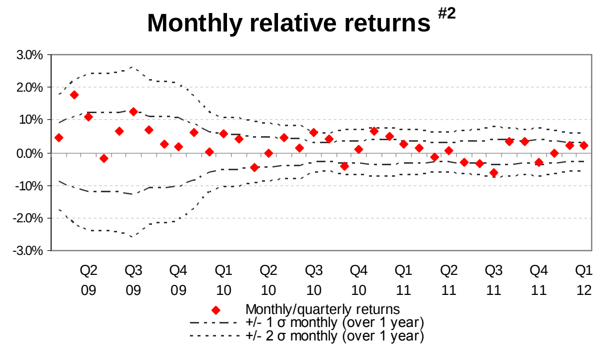
The exposure to Primary continues to be below the guidelines, but short-term deviation from the allocation restrictions in place can be expected at such an early stage of investment and we do not believe the current positioning to be of concern. In total, 53% of the commitments are allocated to primary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

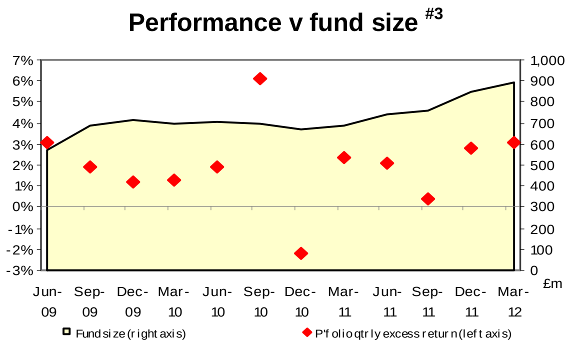
Performance over Q1 2012

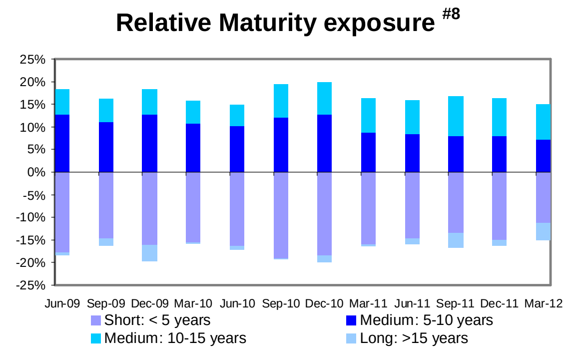
Quarterly performance was 0.3% which was 0.5% below benchmark, however over the last 12 months the portfolio has returned 8.2%, which is a 1.8% outperformance of the benchmark.

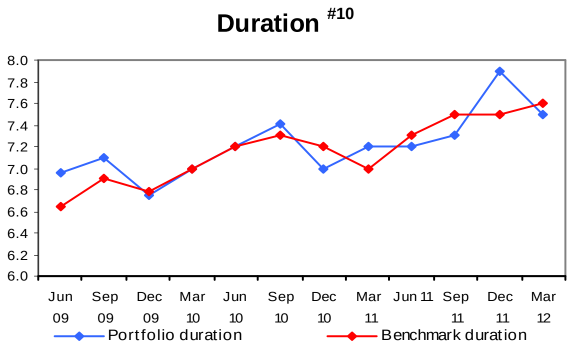
Distributions since inception total £7.25m, with £0.46m distributions over the most recent quarter.

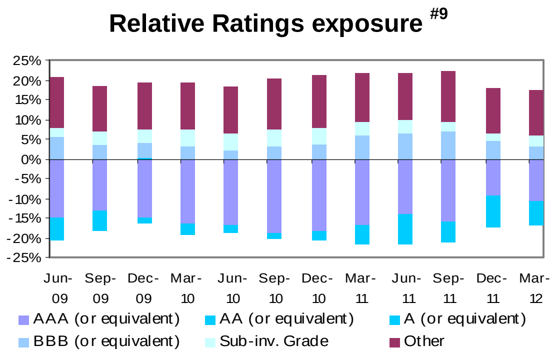












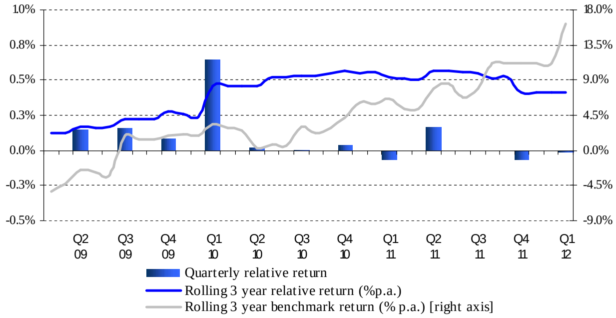
Source: Data provided by WM Performance Services, and RLAM

Comments:

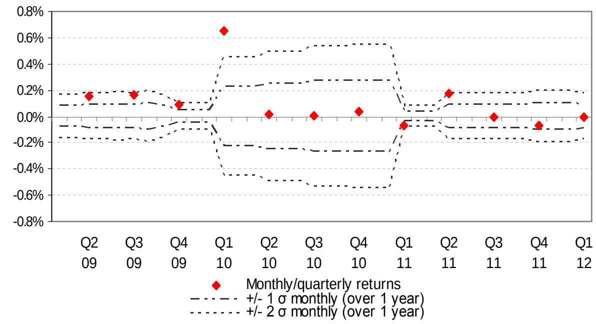
- Over the last quarter, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 3.1%.
- Over the last year, the Fund underperformed the benchmark by 0.4%, producing an absolute return of 8.5%. Over a rolling 3 year period, the Fund outperformed the benchmark by 3.6% p.a., producing an absolute return of 15.0% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

BlackRock – Passive Multi-Asset

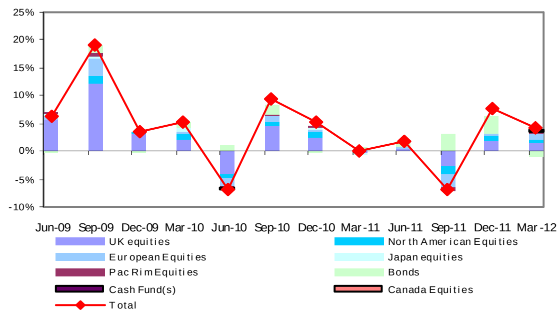
Relative returns [#1]



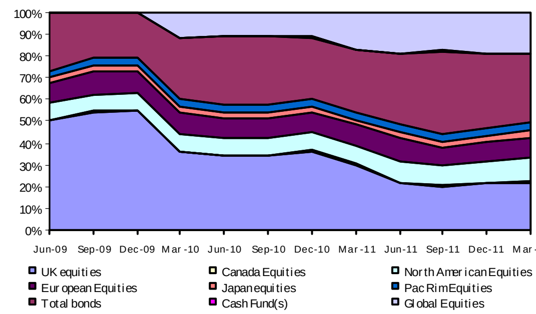
Monthly/Quarterly relative returns [#2]



Contribution to absolute return [#6]



Asset Allocation [#5]

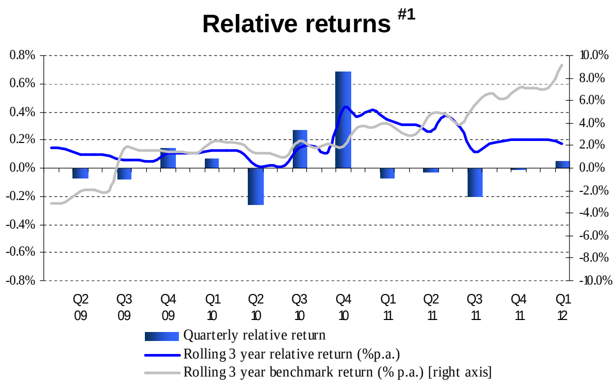


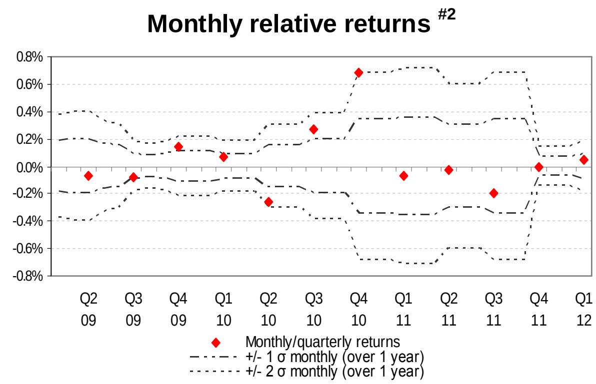
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 4.3%.
- Over the last year, the Fund performed slightly ahead of its benchmark by 0.1%, producing an absolute return of 6.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 16.5% 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.
- The asset allocation changes continued the trend from the last quarter by increasing the weighting to equities and reducing the weighting to fixed interest. The main changes were an increase in UK 0.6%, US 0.6% and European equities 0.5%, with a decrease in index linked gilts by 0.9% and UK gilts by 1.1%. The cash allocation reduced to 0.3%. These changes are primarily a result of market movements.

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





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 0.8%.
- Over the last year, the Fund produced a return of 10.2%, underperforming the benchmark by 0.2%. Over a rolling 3 year period, the Fund produced an absolute return of 9.3% p.a., outperforming the benchmark return by 0.2%.
- Over the quarter the Fund's holdings in UK equities futures, US and European equities increased, and the holdings in UK gilts and cash decreased, again as a result of market movements.
- Over the quarter, the positive absolute return contribution to the total portfolio returns from equities was partially offset by the negative absolute return contribution from UK Gilts.

Appendix A – Market Events

UK market events – Q1 2012

- **Quantitative Easing:** The Bank of England extended its quantitative easing program by £50 billion in early February to stand at £325 billion at the end of the quarter.
- **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 edged down from a 12-year high of 8.4% to 8.3% in February. The Office for National Statistics also said there were 2.65 million people out of work in the three months from December to February.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey increased to a seasonally adjusted figure of 51.9 in March, up from a revised reading of 51.5 in February. The PMI has signalled expansion for four consecutive months, with its average reading in Q1 2012 of 51.8 being the highest since the second quarter of last year.
- **Inflation:** CPI annual inflation rose from 3.4% in February 2012 to 3.5% in March 2012. RPI annual inflation fell slightly from 3.7% in February 2012 to 3.6% in March 2012. The Office for National Statistics said lower gas and electricity bills and a slower rise in petrol prices than last year failed to offset higher price tags for clothing and food to push up the CPI from 3.4% in February.
- **Gross Domestic Product ("GDP"):** In the first quarter of 2012 GDP declined by 0.2%. Output of the production industries decreased by 1.3% in Q1 2012 within which manufacturing fell by 0.7%. The Construction sector also saw an output decrease of 0.2% in Q1 2012, compared with a decrease of 0.5% in the previous quarter.
- **Interest Rate:** The Bank's Monetary Policy Committee, in its latest monthly meeting in April concluded to maintain the interest rates at a record low of 0.5%, which has been at this level since March 2009.

Europe market events – Q1 2012

- **European sovereign debt crisis:** Government hopes of an export-led recovery were dented in April as the weakest trade figures for almost six months coincided with a warning from the World Trade Organisation (WTO) that the turmoil in the Eurozone would act as a major drag on international commerce during 2012. Official data showed the sovereign debt crisis in the weaker countries of the monetary union already having an impact on UK firms, with exports to Italy, Spain, Portugal and Greece all showing steep falls over the past year. Labour seized on the figures from the Office for National Statistics showing that Britain's trade gap widened from £2.5bn in January to £3.4bn in February, with officials citing lower exports of cars, capital goods and food, drink and tobacco as the main reason for the deterioration.
- **Spain:** Spain's economic situation worsened after the ratings agency Standard & Poor's downgraded the country's debt and warned that its recession was likely to deepen by the end of the year. S&P cut the rating on Spain's debt mountain by two notches, from A to BBB+. The downgrade is expected to push up the cost of borrowing immediately, as investors become increasingly worried over Madrid's inability to cut spending without sending its beleaguered economy into a deeper recession.

- The Eurozone entered crisis mode again in April as financial markets placed Spain firmly in their sights and investors began a concerted sell-off of Spanish debt amid growing scepticism over the country's ability to escape a bailout. Spanish bond yields soared to a four-month high, stocks fell to a three-year low, and the central bank governor, Miguel Ángel Fernández Ordóñez, warned that banks would need more capital if the recession-hit economy were to get worse.
- **Portugal:** Portugal revealed that its domestic banks were tapping the central bank for record amounts of funding. The Bank of Portugal said the use by domestic banks for the various facilities available from the ECB rose to €56.3 billion in March – up from €47.5 billion in February and greater than the previous record level of €49.1 billion in August 2010. Bailed out by the EU and International Monetary Fund in April 2011 for €78 billion, Portugal has €12 billion earmarked for bolstering its banks' capital positions if necessary in the months ahead.
- **Greece:** Fitch cut Greece's long-term ratings in March 2012 to its lowest rating above a default, becoming the first ratings agency to make the widely expected downgrade after the country announced a bond exchange plan to ease its massive debt burden. It said Greece would be designated as having technically defaulted after the bond exchange is formalized, but the new bonds would be given a new rating. All three big ratings agencies -- Fitch, Moody's and Standard & Poor's -- downgraded Greece in July when an initial debt swap plan was unveiled and have warned that losses for private creditors would trigger a temporary default.
- **Unemployment:** The EU27 unemployment rate was at 10.2% in February 2012, 0.1% higher compared with January 2012. Among the Member States, the lowest unemployment rates were recorded in Austria (4.2%), the Netherlands (4.9%) and Luxembourg (5.2%), and the highest in Spain (23.6%), Greece (21.0% as at December 2011) and Portugal (15.0%).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI fell to 49.1 in March 2012 from 49.3 in February 2012, the lowest in 3 months. Manufacturing PMI declined to a 3 month low to 47.7 in March 2012 from 49.0 in February 2012. Services PMI rose to 49.2 from 48.8 in February 2012.
- **Inflation:** The annual inflation rate in the Euroarea remained unchanged from February 2012 at 2.7%. Monthly inflation in March 2012 was 1.3%.
- **GDP:** GDP growth for the first quarter was not available at the time of writing, although for the fourth quarter of 2011, this was 0.7%.
- **Interest Rate:** The European Central Bank kept interest rates unchanged at 1.0%.

US market events – Q1 2012

- **Unemployment:** The rate of unemployment in the US decreased from 8.6% in December 2011 to 8.2% in March 2012. Nonfarm payroll edged up by 120,000 in March 2012.
- **Manufacturing and Industrial Production:** Industrial production continued to expand for the 11th consecutive quarterly gain. For the quarter ended March 2012, industrial production increased 3.8%.
- **Inflation:** The US CPI rate decreased from 3.0% in December 2011 to 2.7% in March 2012.
- **GDP:** US real GDP increased at an annualised rate of 2.2% over the first quarter of 2012, against a 2.8% increase in the fourth quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q1 2012

- After robust inflows in the first quarter of 2012, foreign institutional investors have pulled money out of India in April, to the tune of $105.4 million. By comparison, January, February and March saw inflows of $2.04 billion, $5.13 billion and $1.68 billion, respectively. That combined $8.54 billion helped save the fiscal year ending in March from being a total wash-out, bringing FII inflows up to $9 billion after a disastrous 2011 for the Indian economy. Analysts said the outflow so far in April was temporary as investors adjusted their positions in light of two tax-related provisions in the finance bill which went into effect at the beginning of the month.
- China plans to lower tariffs on some products to encourage imports as the nation seeks to alleviate pressures on domestic resources and reduce trade conflicts, the State Council said in a statement in late April. China's cabinet called on local governments and departments to stabilise and promote commodities imports, widen the buying of advanced technology equipment and energy products, and "appropriately enlarge" the import of consumer goods. The world's second-largest economy reported an unexpected trade surplus in March as import growth trailed forecasts. Gross domestic product in the first quarter expanded 8.1% from a year earlier, the least in almost three years.
- Policy makers in Brazil are on a crusade to get the country's sky-high interest rates down to an all-time low. At 9.0% a year, the Selic overnight rate is within 25 basis points of hitting that target. With the minutes of its 166th monetary policy committee meeting – when it reduced the Selic by 75bp – the Copom has given itself ample room to keep on cutting. Inflation, the minutes said, is falling towards the target of 4.5% a year – it was 5.2% in March, down from 6.5% in December.
- Russia's securitisation market is back from the dead after several banks announced deals in April 2012 – the first since the international debt crisis struck in 2008. Sergei Monin, chief executive of the Russian subsidiary of Austria's Raiffeisen International Bank, said that the bank plans in May to securitise $200 million worth of diversified payment rights (DPRs) – payments due from companies and individual customers for banking services in Russia.

Global summary

Economy

- In the UK, twelve month CPI inflation has fallen to 3.5% in March, down from its recent peak of 5.2% in September 2011. The Bank of England ("BOE") stated that while the recent fall in CPI inflation had been as expected, the extent of any further decline is less certain. The Monetary Policy Committee ("MPC") has maintained interest rates at 0.5%. The UK economy officially entered recession with the economy contracting by 0.2% in the first quarter of 2012, albeit a provisional figure, having contracted by 0.1% in Q4 2011
- The UK trade deficit widened in February as exports of goods to non-EU countries dropped. The deficit on the trade in goods and services increased to £3.4bn from a revised £2.5bn in January. The decrease in exports was driven by lower sales of cars (down £400m) to countries outside the EU, including the US, Russia and China
- The official figures from the Office for National Statistics ("ONS") showed a rise in the rate of CPI inflation from 3.4% in February to 3.5% in March. Inflation may stay above 3% during the rest of this year, according to Paul Tucker, a deputy governor of the BOE. Separately, the Bank had warned of the possibility the economy may fall into recession again this year.

- Early indicators of consumer spending at the beginning of the year were mixed. Retail sales have risen by 0.9% in January and 1.3% in the last three months. Other indicators had been less positive, as consumer confidence had remained weak. The latest CBI Distributive Trades Survey had reported that retail sales volumes were broadly flat in the year to February, although this represented a sharper improvement on January than retailers had anticipated.
- The ONS confirmed unemployment rose again, but at its slowest pace for a year. It reached 2.67 million during the three months to January 2012, taking the unemployment rate to 8.4%. This figure compares favourably with the Euro zone area which currently stands at 10.8% and 10.2% across the 27 EU Countries.
- Ratings agency Standard and Poor's ("S&P") has reaffirmed it AAA rating for the UK saying it believes the economy is "wealthy, open and diversified". S&P also confirmed a stable outlook, as it expects the Government to implement the bulk of its austerity measures. The other two ratings agencies, Fitch and Moody's, have placed the UK's top rating on 'Negative Outlook', warning that it could be downgraded within 12 - 18 months.
- The Southern European countries of Italy, Spain, Portugal and Greece are undergoing severe austerity programmes, which is having a knock-on impact on the prospects for growth, with the Southern European countries in recession. More importantly, the appointment of caretaker governments in Greece and Italy has boosted confidence that structural reforms will be taken seriously.
- The significant improvement in market sentiment since the ECB's first Long Term Refinancing Operation ("LTRO") in December had been maintained and further supported by the second round of LTRO on 29th February. The net increase in market liquidity generated by the LTROs has continued to support short-term bank funding markets in the Euro area.
- The European Central Bank ("ECB") benchmark interest rate remained unchanged at 1%. The US Federal Reserve made an unprecedented move by announcing that it expected to keep interest rates below 1 per cent until at least 2014. In Asia, the Bank of Japan continues to print money and the People's Bank of China has begun to cautiously loosen policy, reducing bank's reserve ratio requirements.
- Since hitting a low in October 2011, The Global Purchasing Managers Index (PMI) has risen for the fourth straight month reaching a 12 month high in February. The PMI for China has defied widespread expectations of a steepening downturn, hitting a four month high in February.

Equities

- The FTSE All Share produced a return over the quarter of 6.1%. European equities produced returns of 10.0%, despite the ongoing concerns regarding sovereign debt in the Euro zone. Emerging Markets were the strongest performers, producing returns of 10.6%. US, Asia Pacific and Japan equities all produced positive absolute returns over the quarter.

Fixed Interest

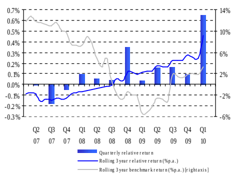
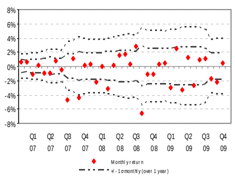
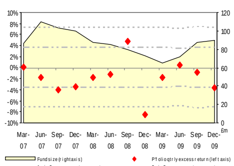
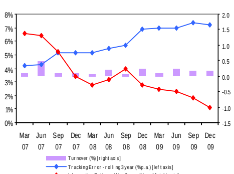
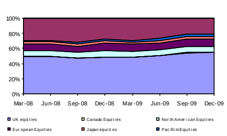
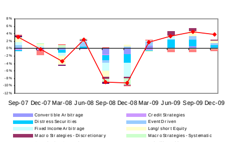
- UK long dated gilts produced negative returns over the quarter as the yield increased, ending the quarter at 3.3%. However, many believe that the yields remain low and that further rises may be possible, especially given the high level of government debt.
- Whilst long dated, AA rated corporate bonds returned -0.4% over the quarter, most corporate bond and non - gilt indices achieved a small positive return and yield spreads over gilts generally narrowed.

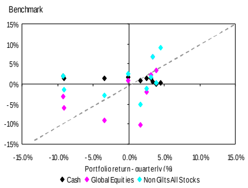
Alternative Asset Classes

- Hedge funds continued to underperform equity markets achieving an overall return of 4.2% during the quarter. High yield and commodities achieved strong positive returns and property continued to produce a positive return, albeit driven by yield rather than capital appreciation.

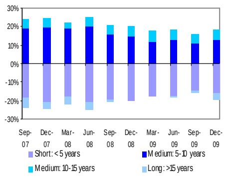
Appendix B – Glossary of Charts

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

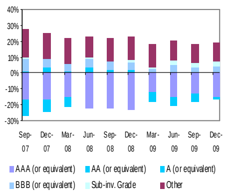
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year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

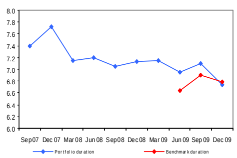
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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