Review for period to 30 June 2012

Avon Pension Fund

JLT INVESTMENT CONSULTING

Section One – Executive Summary

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

Funding level

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

Fund Performance

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

Strategy

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

Managers

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

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

Key points for consideration

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

Contents

Section Two – Market Background

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

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

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

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

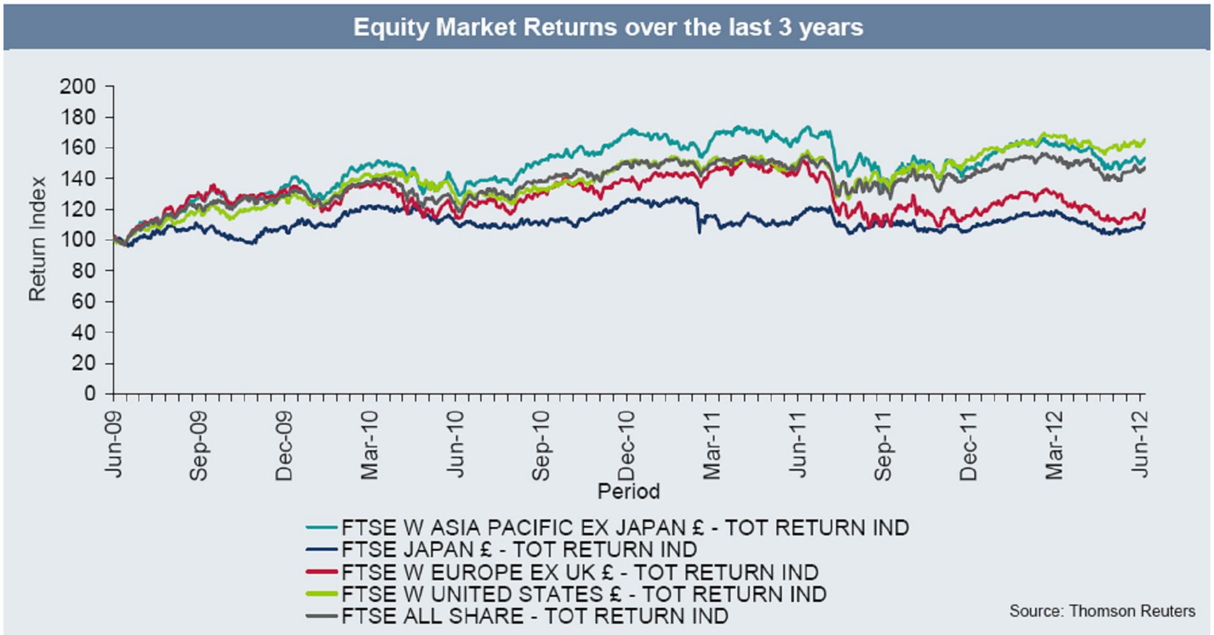
Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	6.7	27.9
Index-Linked Gilts (>5 yrs)	0.8	16.9
Corporate Bonds (>15 yrs AA)	5.3	18.3
Non-Gilts (>15 yrs)	4.2	15.5

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

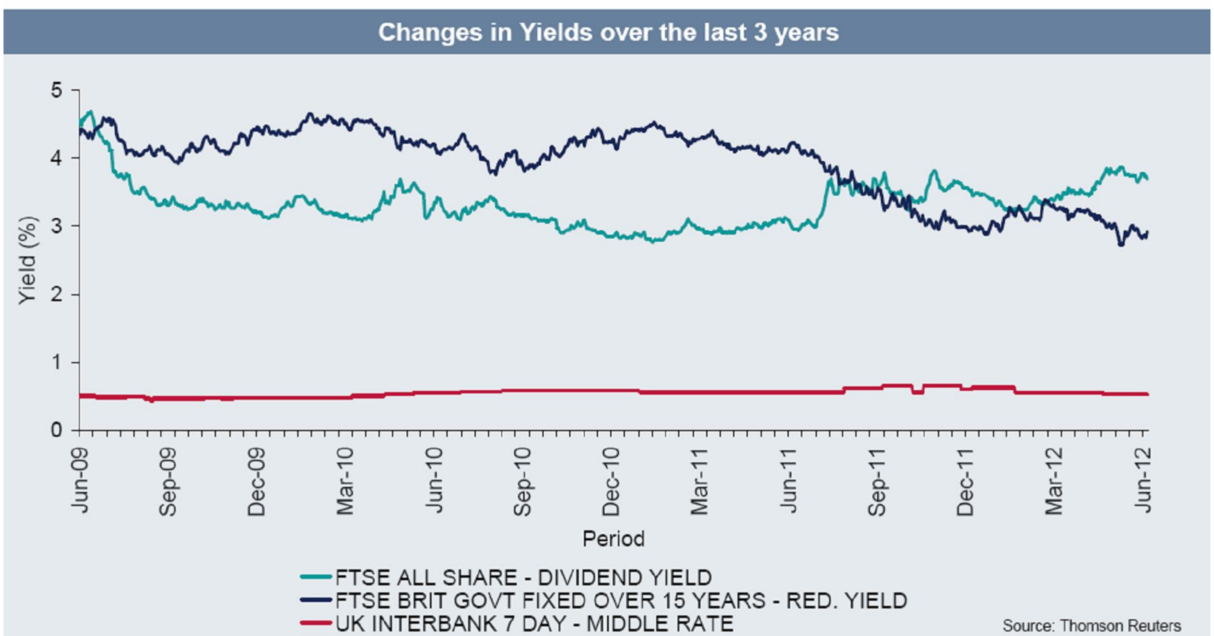
Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-1.8	-2.3
Against Euro	3.0	11.6
Against Yen	-4.8	-3.5

* *Subject to 1 month lag*
Source: Thomson Reuters

Market Background



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



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

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

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

Source: Statement of Investment Principles, Thomson Reuters.

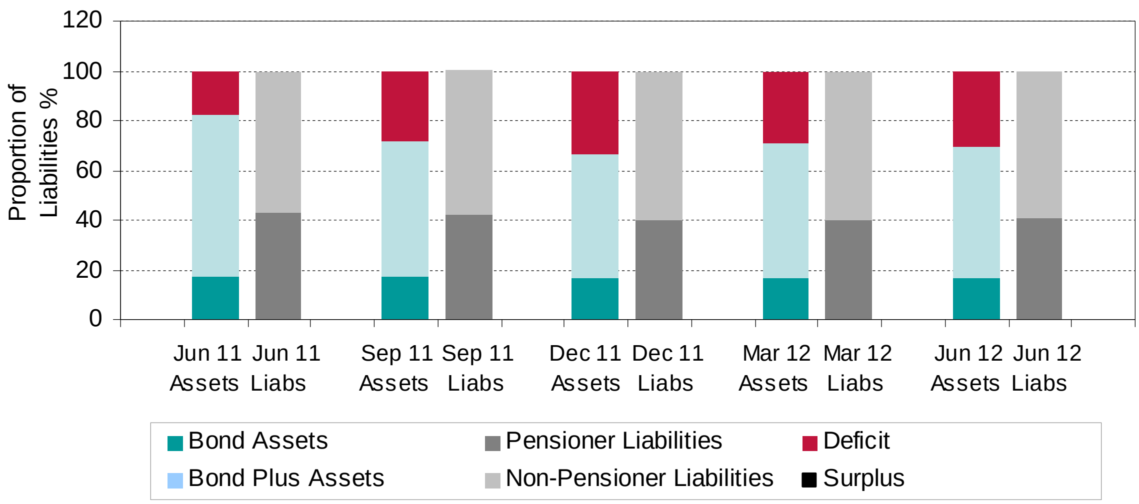
See appendix A for economic data and commentary

Section Three - Consideration of Funding Level

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

Asset allocation and liability split

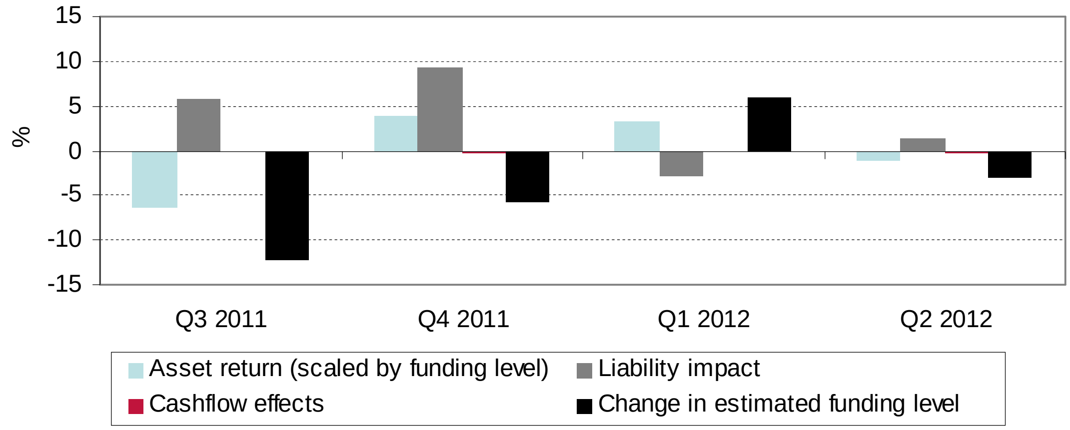
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix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



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

Scheme performance relative to estimated liabilities

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

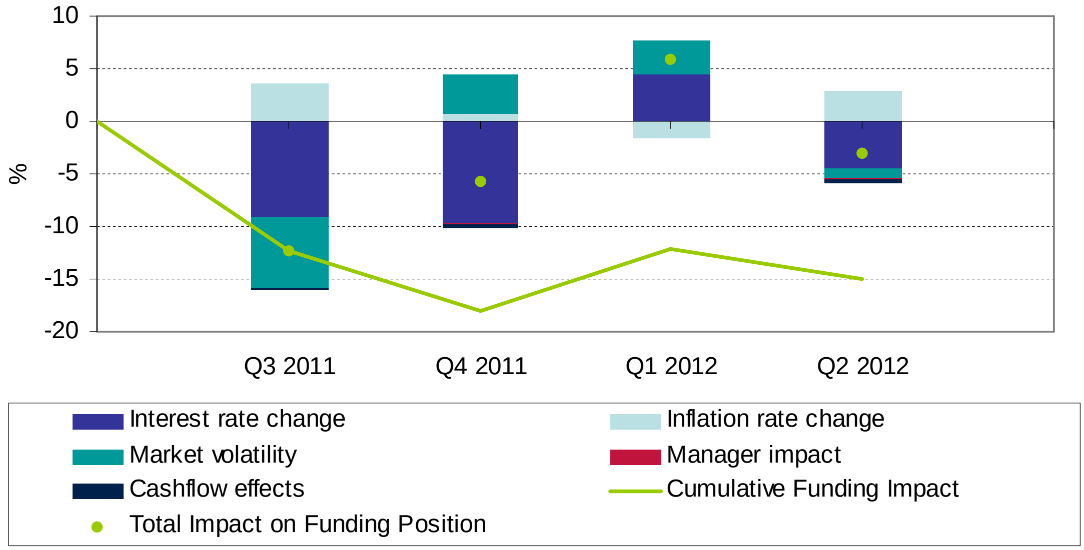


Note 1: A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

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

Key drivers of performance against the estimated liabilities

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



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

Section Four – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 June 2012, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

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

Source: Data provided by WM Performance Services

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

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

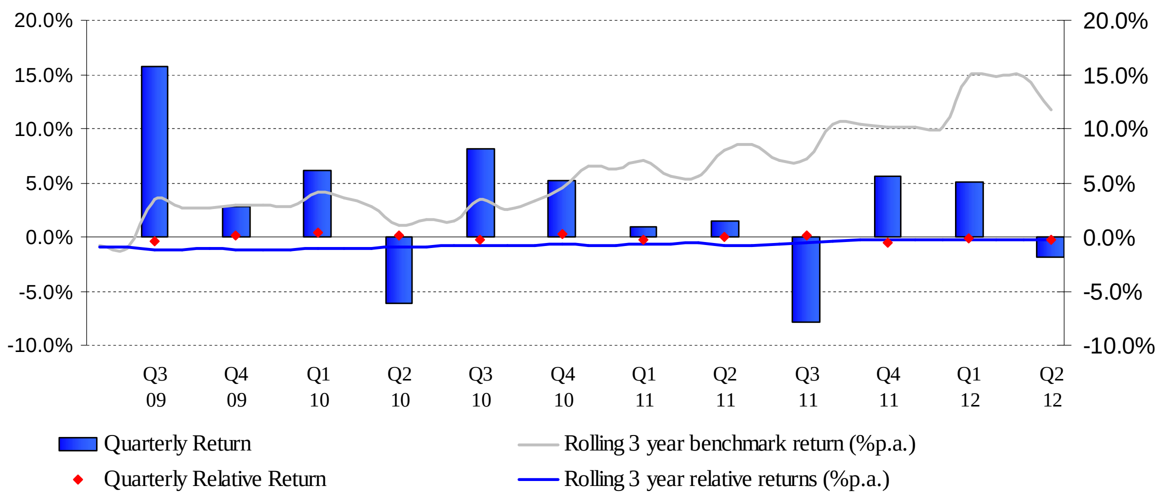
Source: Avon Pension Fund, Data provided by WM Performance Services.

Section Five – Performance Summary

Total Fund performance

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

Total Fund absolute and relative performance



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

Source: Data provided by WM Performance Services.

Strategy performance

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

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

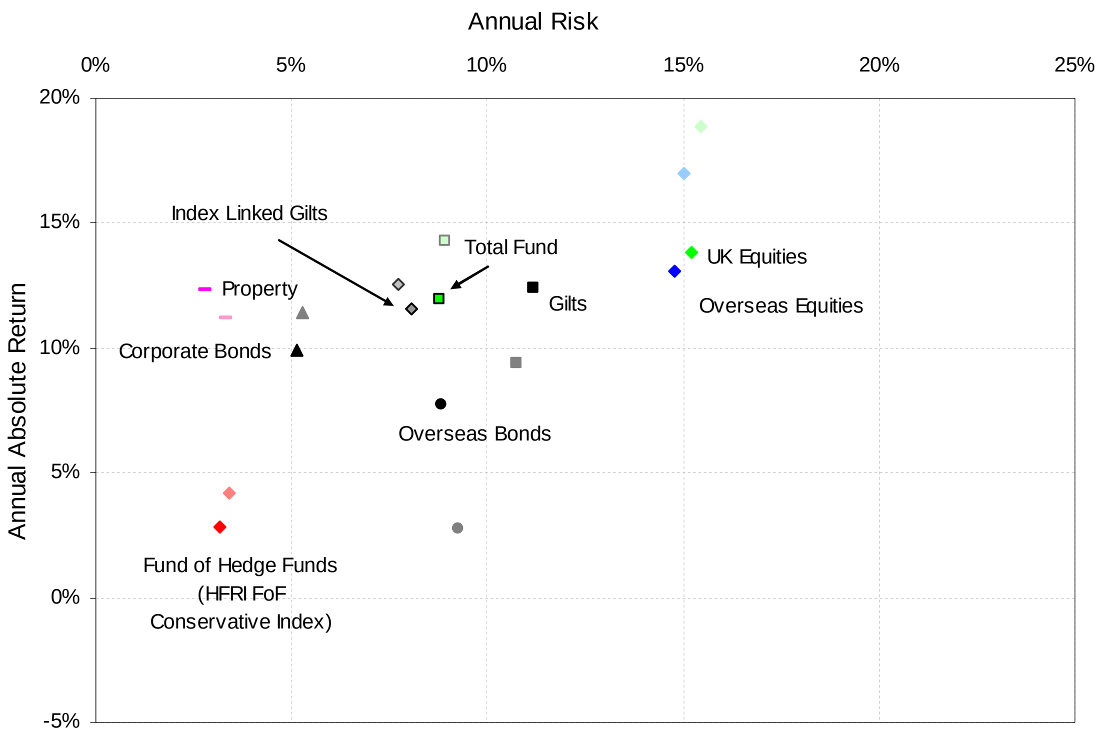
Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differs from the 'long maturities' index returns shown on the Market Background page in Section Two.

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

Risk Return Analysis

- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.
- This chart can be compared to the 3 year risk vs return managers' chart on page 19.

3 Year Risk v 3 Year Return to 30 June 2012



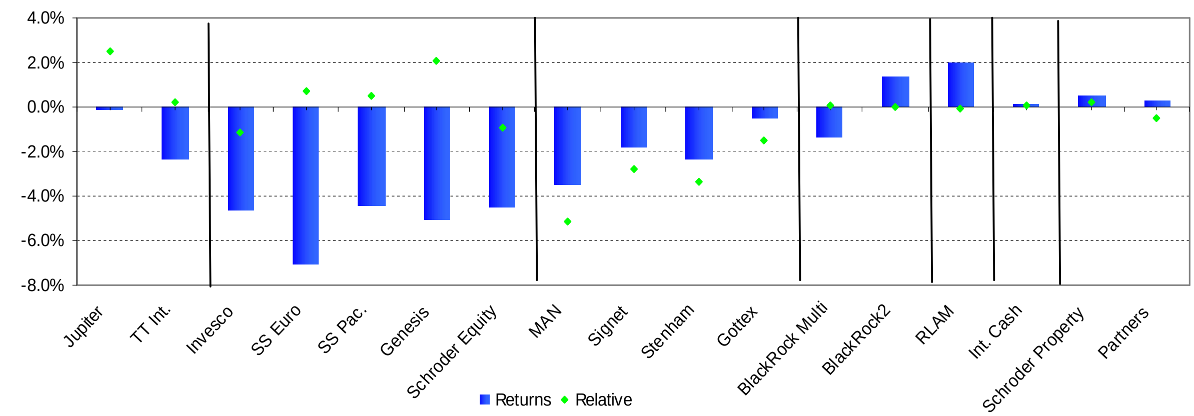
Source: Data provided by Thomson Reuters

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

Aggregate manager performance

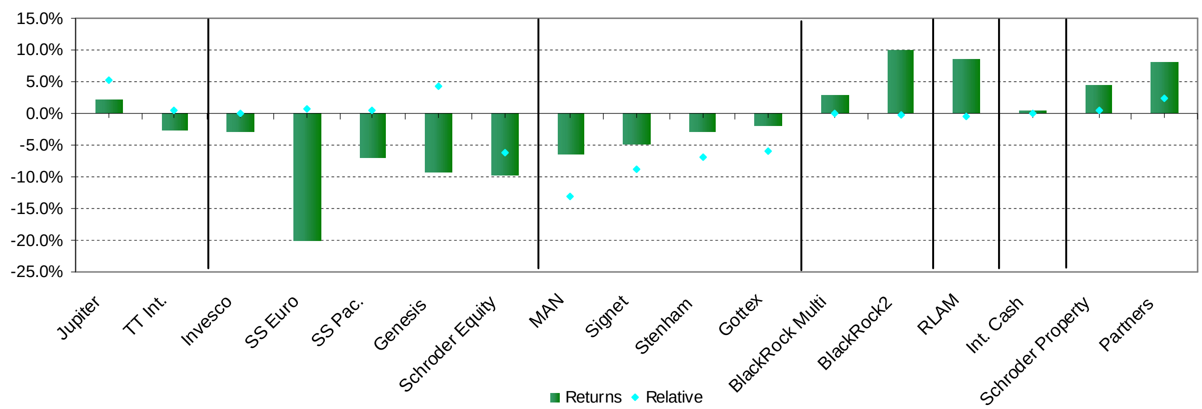
- In aggregate, the managers underperformed the customised benchmark over the quarter and year.
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of June 2012. The relative quarter, one year and three year returns are marked with green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

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

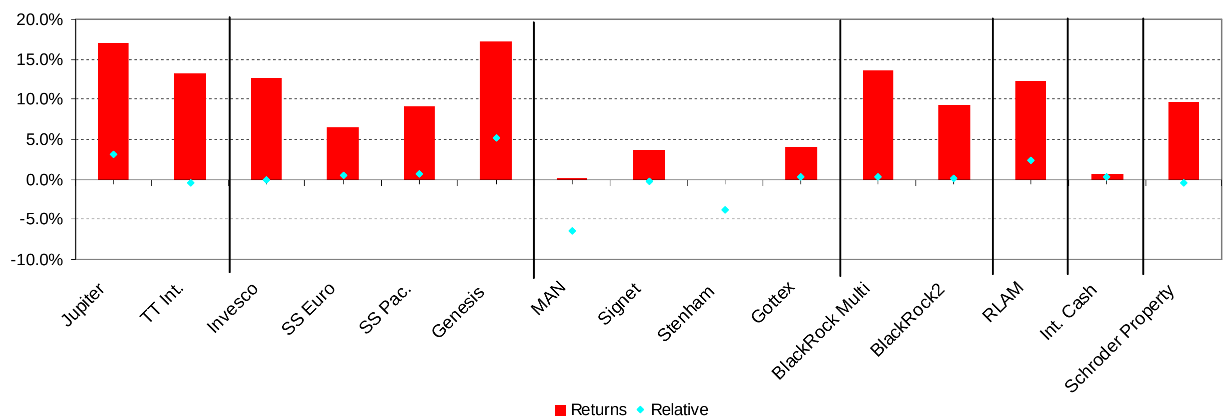


Partners data is lagged by 1 quarter.

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



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



Source: Data provided by WM Performance Services

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

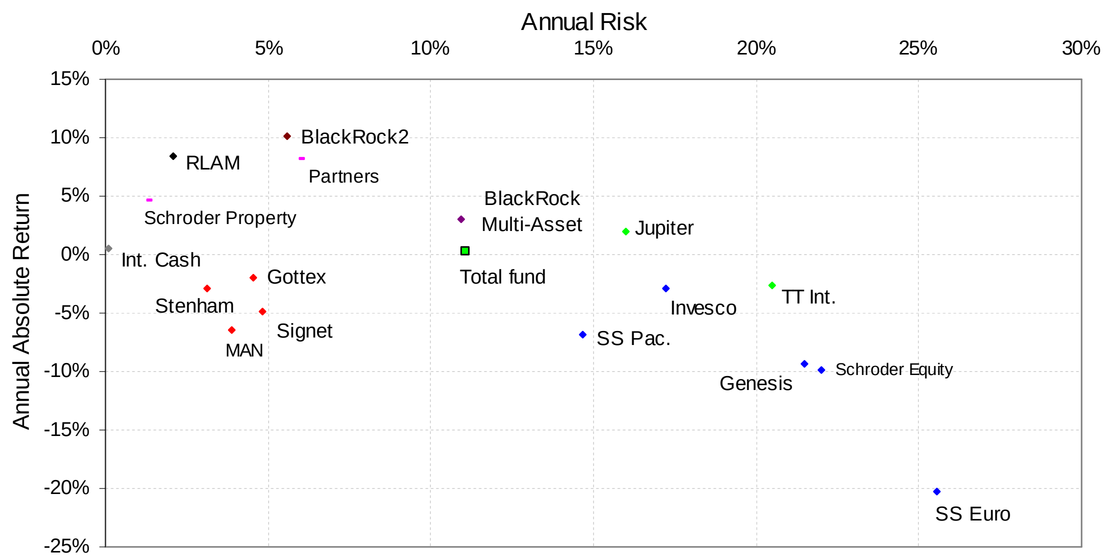
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.5	+5.1	+3.1	Target met
TT International	+0.3	+0.3	-0.5	Target not met
Invesco	-1.2	-0.1	-0.1	Target not met
SSgA Europe	+0.7	+0.9	+0.7	Target met
SSgA Pacific	+0.4	+0.5	+0.8	Target met
Genesis	+2.1	+4.3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

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

Manager and total Fund risk v return

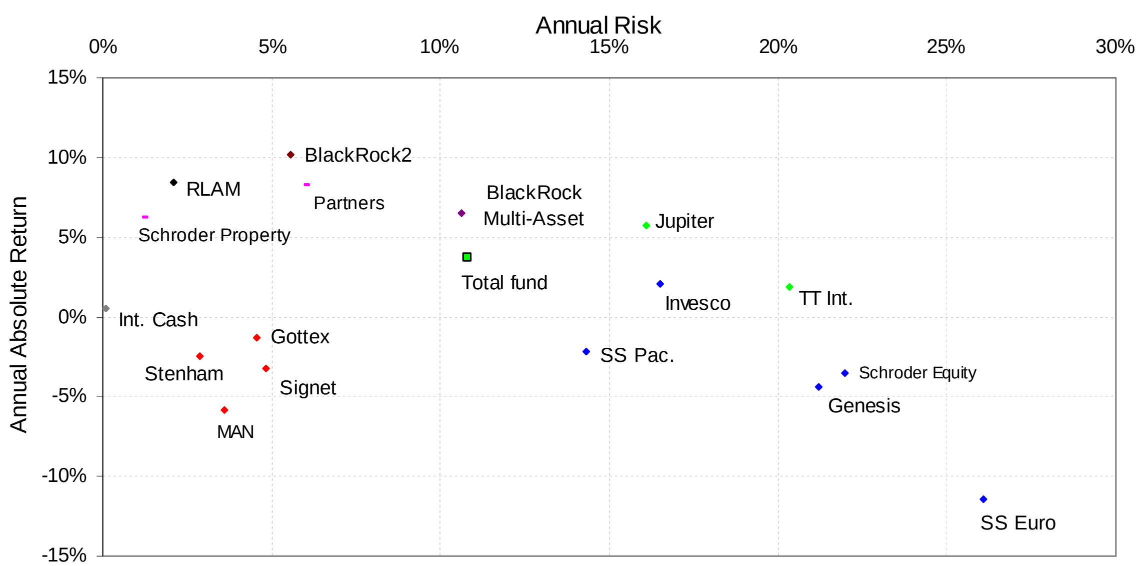
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the funds. We also show the same chart, but with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

1 Year Risk v 1 Year Return to 30 June 2012



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 March 2012



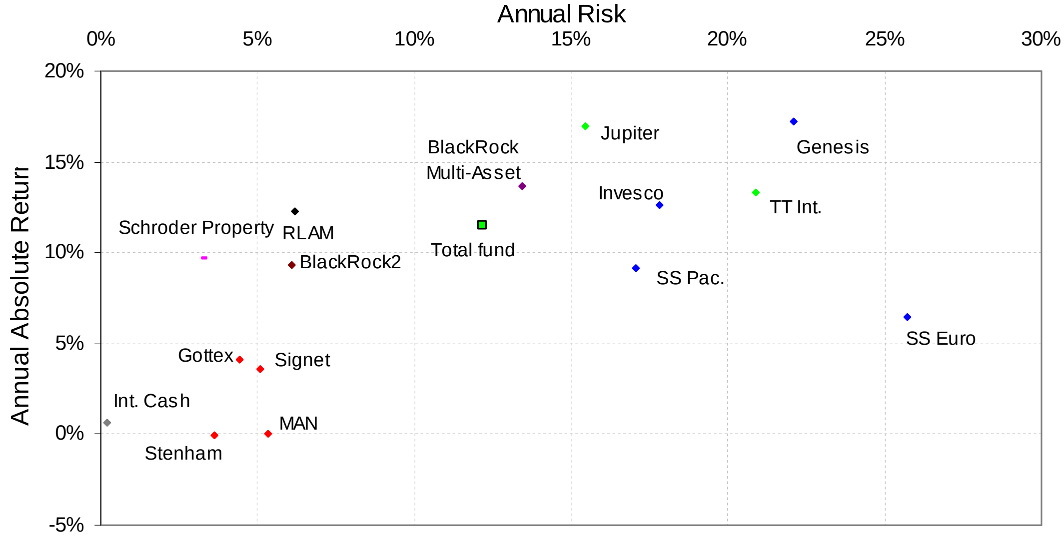
Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Pink: Property
  - Green Square: total Fund

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

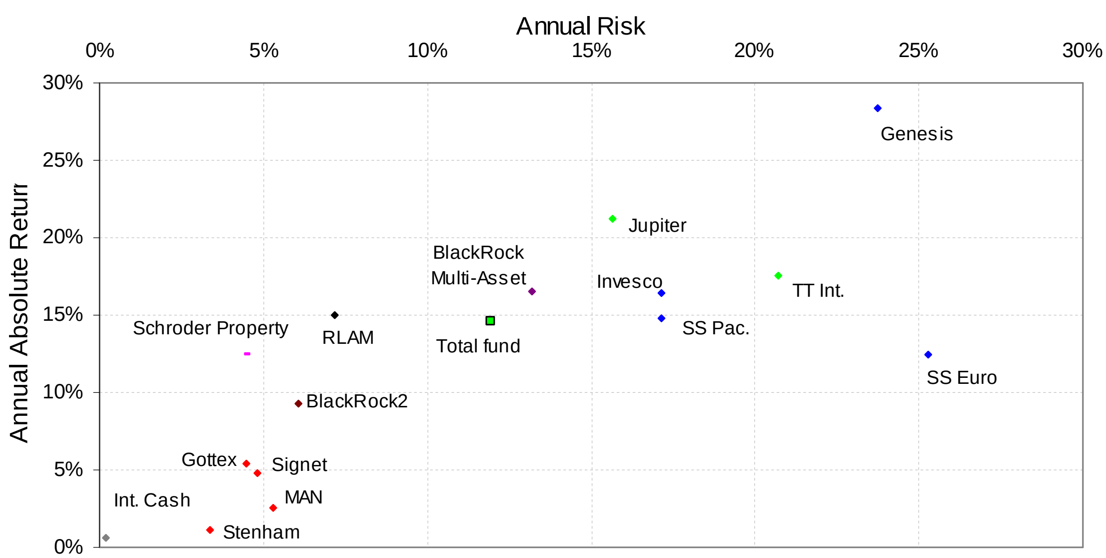
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2012 of each of the funds. We also show the same chart, but with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

3 Year Risk v 3 Year Return to 30 June 2012



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 March 2012



Source: Data provided by WM Performance Services

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

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

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

Conclusion

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

Section Six – Individual Manager Performance

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

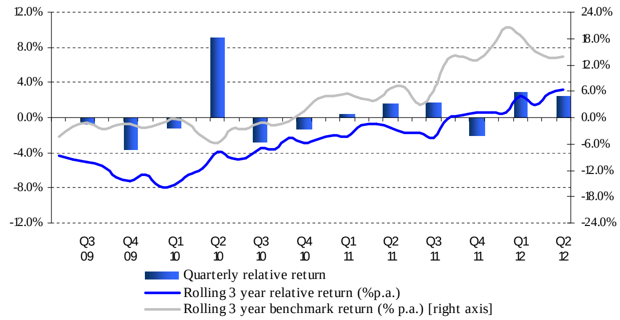
Key points for consideration

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

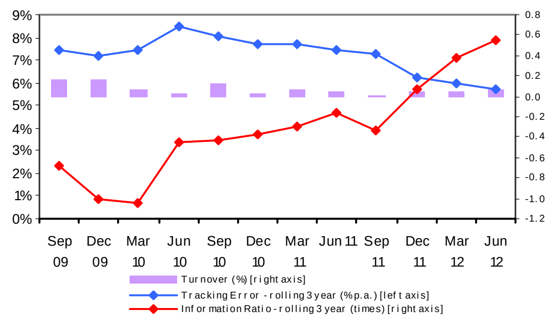
Jupiter Asset Management – UK Equities (Socially Responsible Investing)

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

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

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

Source: Data provided by WM Performance Services, and Jupiter

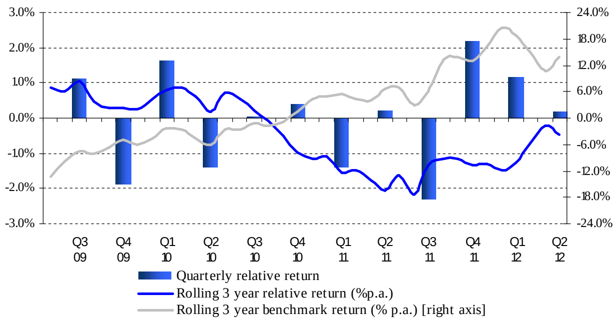
Comments

- The Fund's allocation to Cash (5.7%) decreased compared to the preceding quarter (6.9%) remaining below the 7% limit.
- The industry allocation has remained considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q2 2012, Jupiter was significantly underweight Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services and Technology. This relative allocation has been consistent with previous quarters.

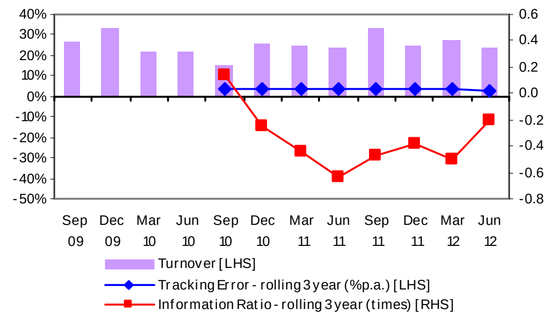
TT International – UK Equities (Unconstrained)

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

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

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

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

Comments

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

Schroder – Global Equity Portfolio (Unconstrained)

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

Portfolio update and performance over Q2 2012

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

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

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

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

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

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

Conclusion

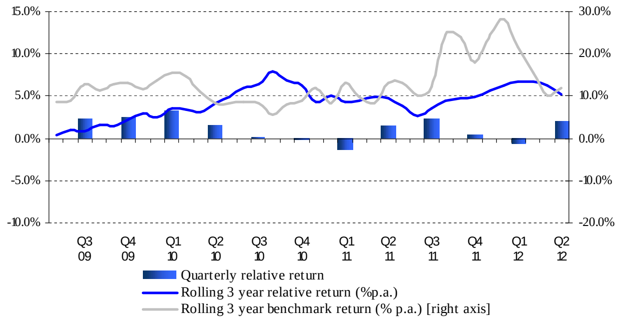
Schroder's approach to stock selection is not constrained by the benchmark. Performance relative to the benchmark is expected to be volatile over short time periods. The underperformance since inception is therefore not of significant concern. Schroder continues to invest in stocks, diversified by sector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

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

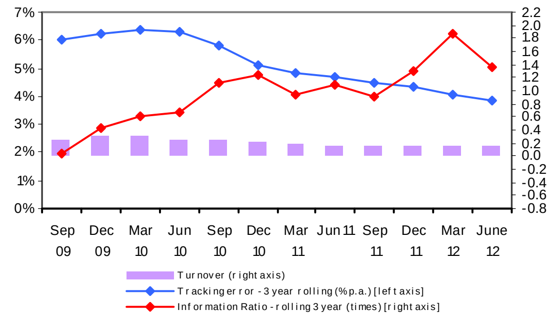
Genesis Asset Managers – Emerging Market Equities

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

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

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

Source: Data provided by WM Performance Services, and Genesis

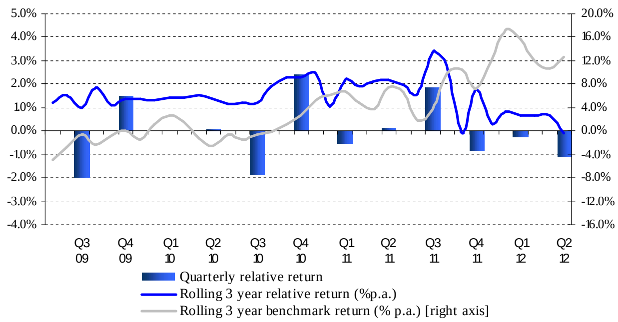
Comments:

- The Fund remains overweight to India and South Africa, and underweight Brazil, South Korea and China. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweight's are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) continued to fall from 4.1% in Q1 2012 to 3.9% in Q2 2012. This is the 10th consecutive quarter of the tracking error reducing from when compared to the preceding quarter. The 3 year information ratio (risk adjusted return), fell from 1.9 to 1.4.
- The allocation to Cash (1.5%) increased slightly compared to the previous quarter (1.0%).
- On an industry basis, the Fund is now overweight Consumer Staples (+6.7%), Health Care (+2.7%) and Financials (1.5%). The Fund is underweight to Consumer Discretionary (-5.5%), Energy (-3.8%) and Telecom Services (-1.9%).
- The reduction in tracking error is perhaps expected given the uncertain economic climate and Genesis continue to show they can outperform during both negative and positive equity markets.

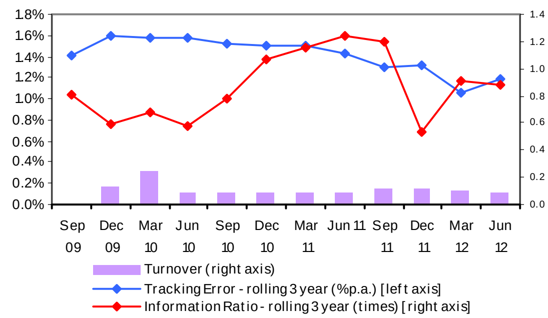
Invesco – Global ex-UK Equities (Enhanced Indexation)

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

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

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

Source: Data provided by WM Performance Services, and Invesco

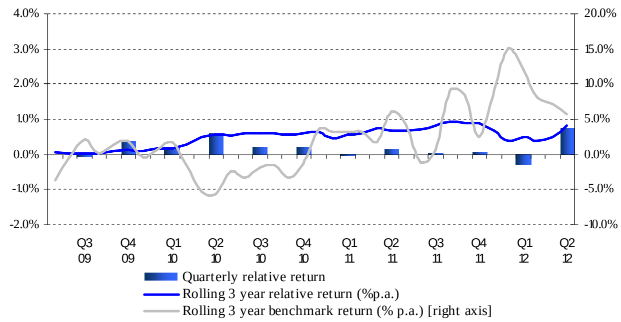
Comments:

- Over the last quarter, all strategies continued to be positive contributors except for Stock and Sector selection. The different timing of the pricing of the Fund versus the benchmark (mid day price versus end day price respectively) accounts for c.1% of the underperformance this quarter.
- The absolute volatility has increased to 13.2% at the end of the second quarter compared to 12.1% at the end of the first quarter. This is the second consecutive quarterly increase.
- The turnover for this quarter of 9.2% decreased from 10.0% in the previous quarter. This is the third consecutive quarter were the turnover reduced from when compared to the preceding quarter. The number of stocks remained almost at par compared to the previous quarter.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio remains appropriate for the enhanced indexation approach.
- Invesco's 3 year performance has fallen marginally behind benchmark but this is not currently of concern. The level of risk taken is appropriate for the outperformance objective and relative outperformance is expected to improve.

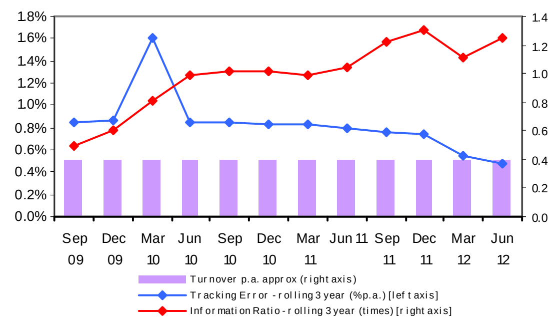
SSgA – Europe ex-UK Equities (Enhanced Indexation)

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

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

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

Source: Data provided by WM Performance Services, and SSgA

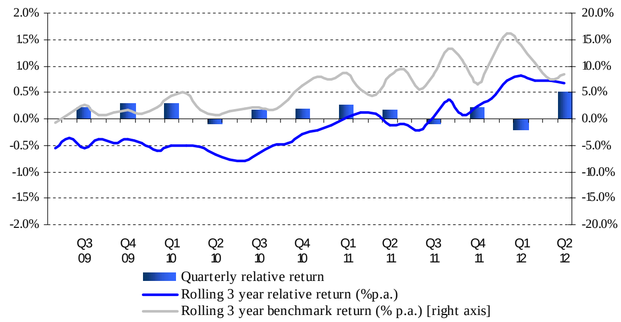
Comments:

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

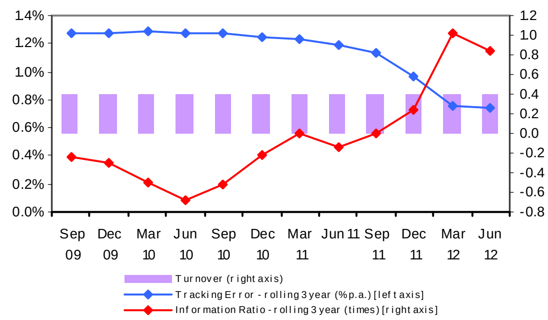
SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

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

Source: Data provided by WM Performance Services, and SSgA

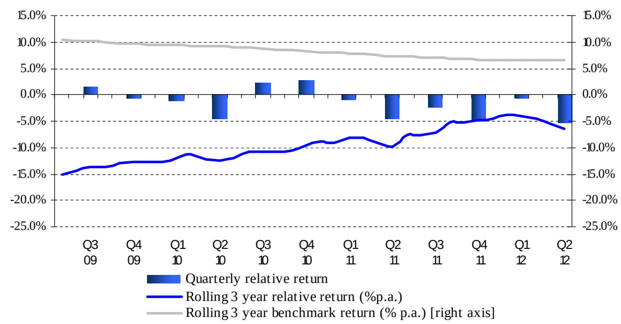
Comments:

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

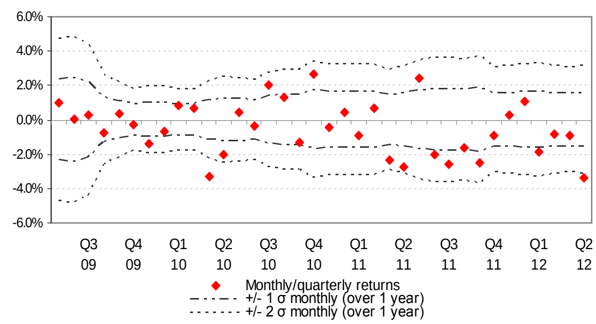
MAN – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +5.75%**	**5.3%**	**August 2007**
Value (£'000)	**% Fund Assets**	**Number of funds**	
£60,928	**2.3**	**66**	

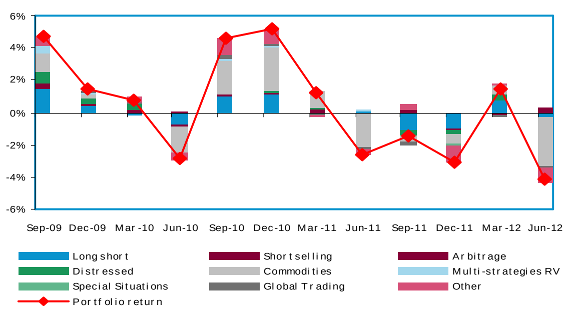
Relative returns [#1]



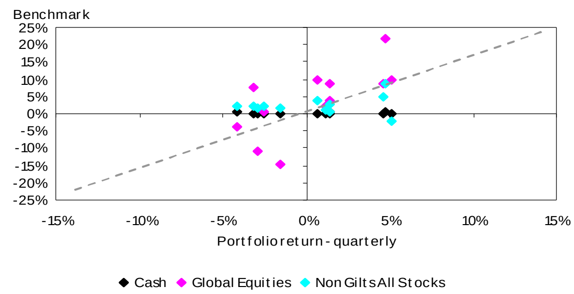
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

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

Source: Data provided by WM Performance Services, and MAN

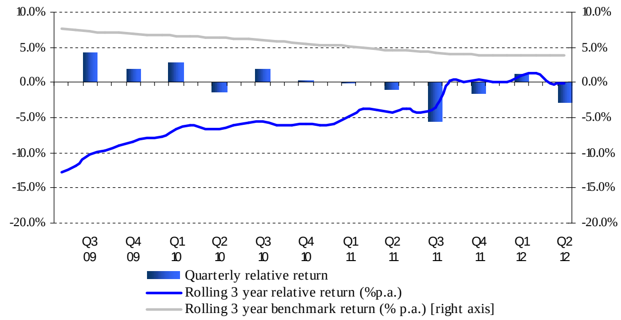
Comments:

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

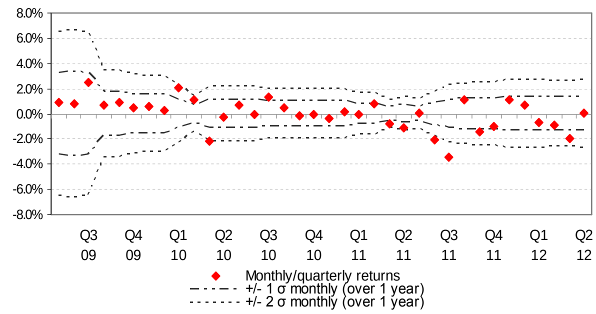
Signet – Fund of Hedge Funds

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

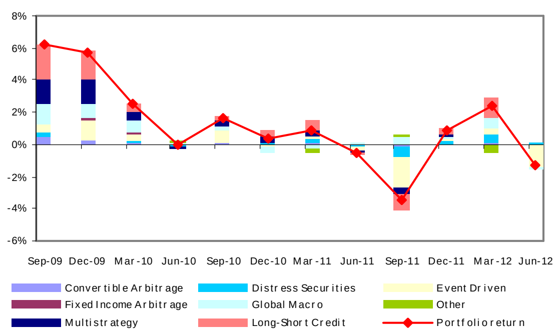
Relative returns #1



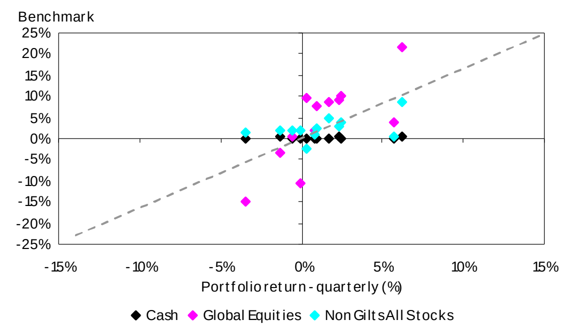
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

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

Source: Data provided by WM Performance Services, and Signet

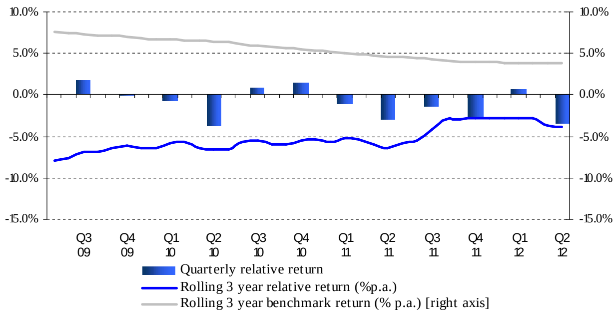
Comments:

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

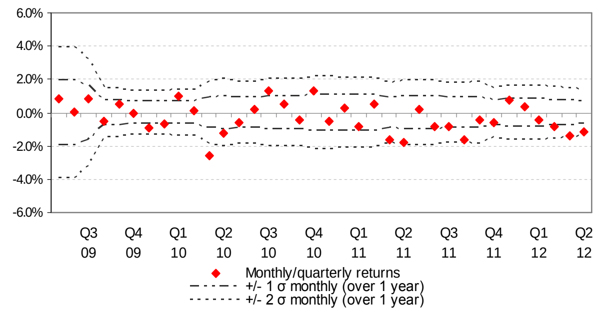
Stenham – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.2%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£32,494	1.2	38	

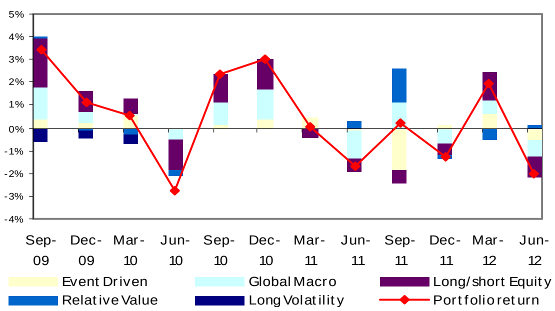
Relative returns [#1]



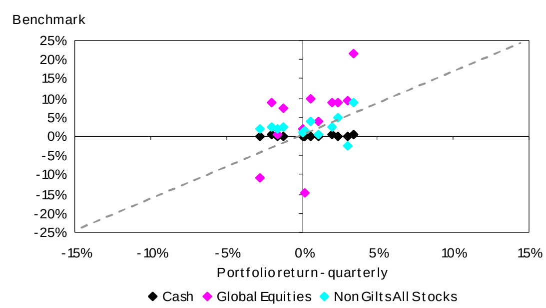
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

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

Source: Data provided by WM Performance Services, and Stenham

Comments:

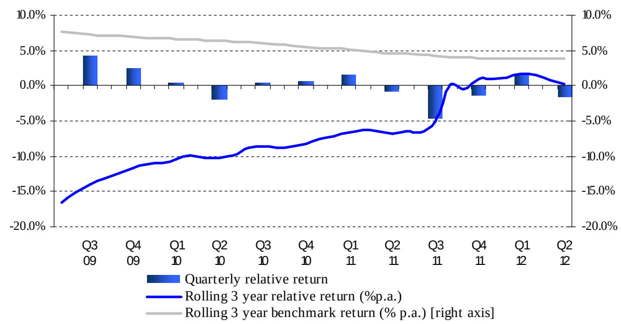
- Event driven strategies produced the lowest return over the quarter, and detracted 0.6% from the portfolio over the quarter. Long / Short equities were the largest detractor to the portfolio. Global Macro also detracted and short selling was neutral. The only positive contribution to performance came only from Relative value strategies (+0.1%).
- The allocation to the Global Macro and Long / Short Equity strategies made up 71.0% of the total Fund allocation. The allocation to Cash continued to decrease from 2.0% to 1.0% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds

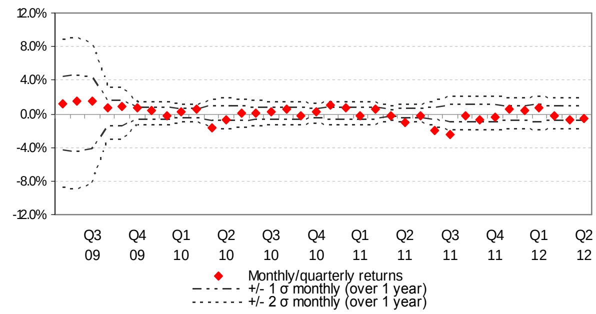
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.1%	August 2007

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

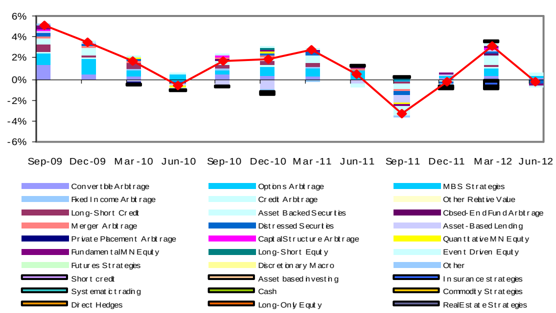
Relative returns [#1]



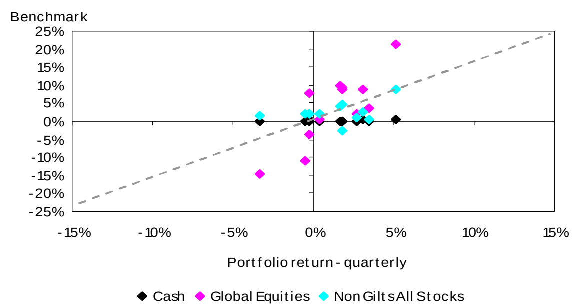
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

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

Source: Data provided by WM Performance Services, and Gottex

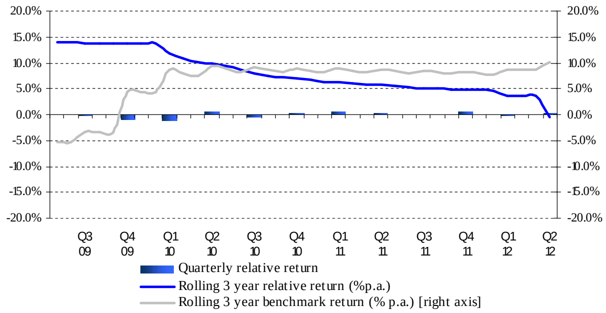
Comments:

- The Fund has a diverse range of strategy exposures, with continued major exposures to Asset Backed Securities, Mortgage Backed Securities and Fundamental MN Equity strategies. Allocations remained broadly in line with those in the earlier quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

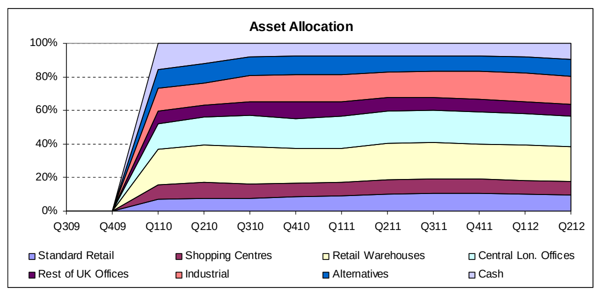
Schroder – UK Property

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

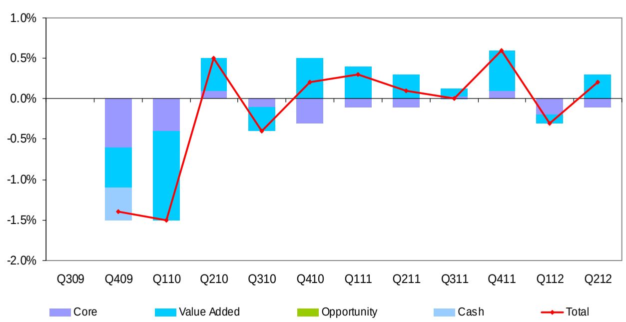
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

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

Source: Data provided by WM Performance Services, and Schroders

Comments:

- Schroder were appointed to manage UK Property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.

Partners – Overseas Property

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

Portfolio update

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

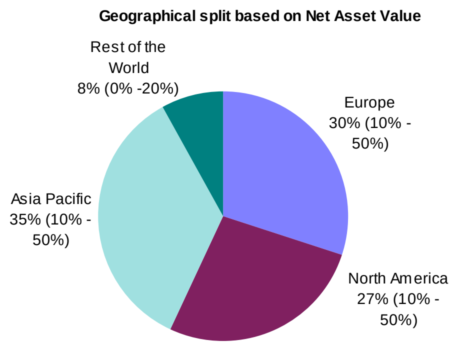
Partners have communicated that the extent of the draw downs to date are broadly as they expected, with the exception of investments in core European real estate which they are delaying due to the uncertain economic environment in Europe. They are currently reviewing the alternative opportunities to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

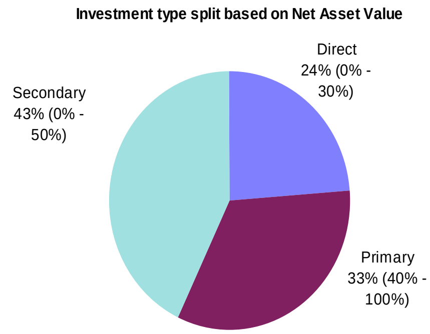
The funds invested to date have been split by Partners as follows:

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

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

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 2012, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

Changes to the geographical allocation and investment type within the portfolio over the quarter were marginal.

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

Performance over Q2 2012

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

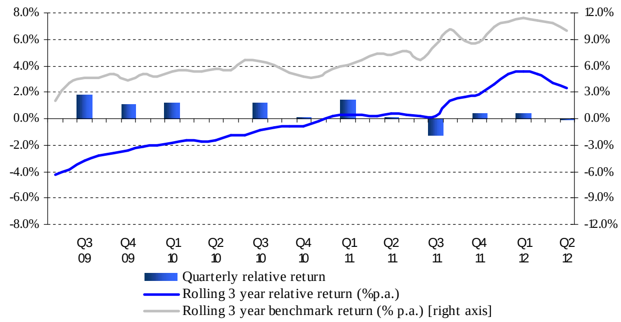
Performance of Partners is lagged by 1 quarter. Performance over Q1 2012 was positive, with the manager producing a return of 0.3%, this was however, behind that of the benchmark. Over the 1 year to 31 March 2012, the performance of Partners was 8.2%, against a benchmark return of 6.3%.

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

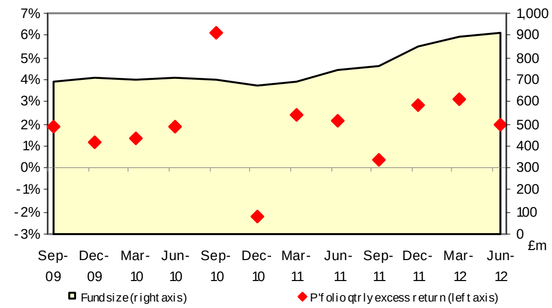
Royal London Asset Management – Fixed Interest

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

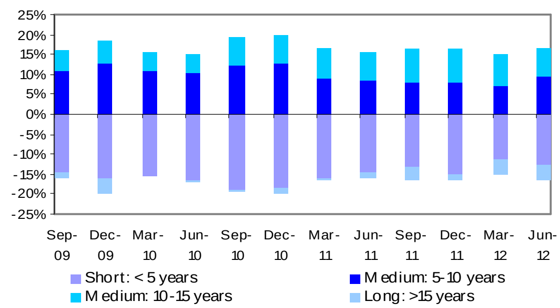
Relative returns [#1]



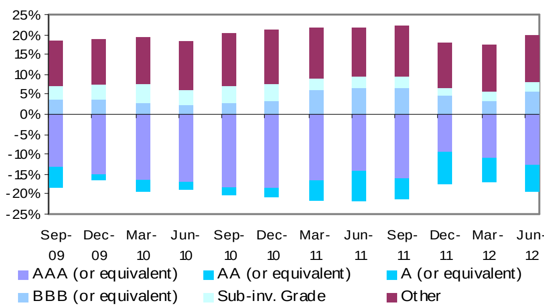
Performance v fund size [#3]



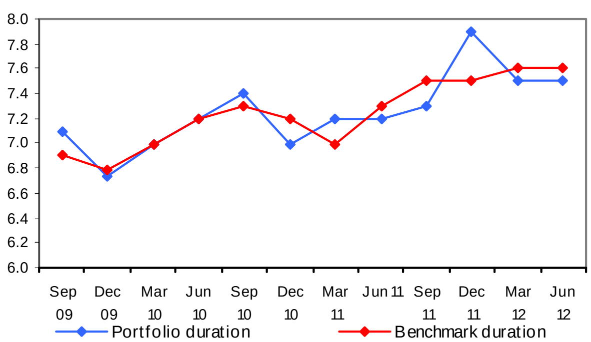
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

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

Source: Data provided by WM Performance Services, and RLAM

Comments:

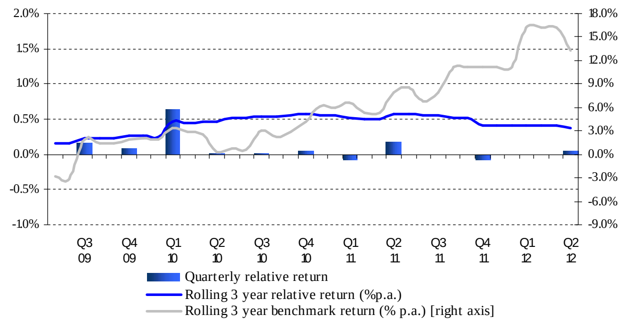
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

BlackRock – Passive Multi-Asset

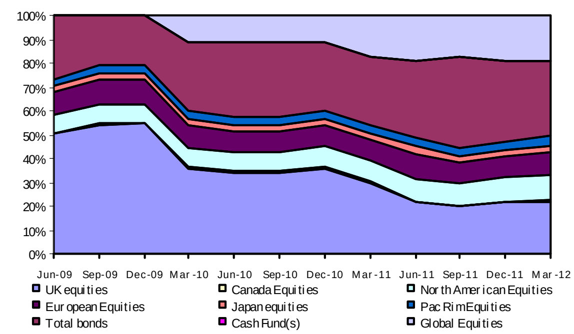
Mandate	Benchmark	Outperformance target	Inception date
Passive multi-asset	**In line with customised benchmarks using monthly mean fund weights**	**0%**	**April 2003**

Value (£'000)	% Fund Assets
£1,207,763	**44.7**

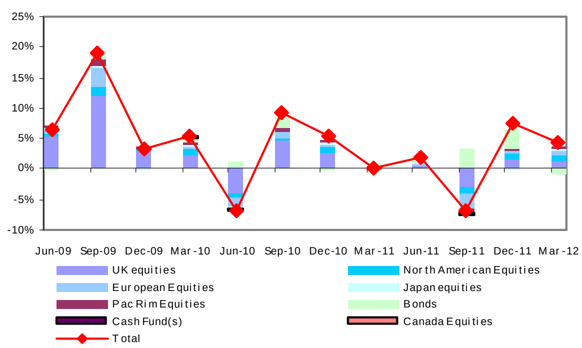
Relative returns [#1]



Asset Allocation [#5]



Contribution to absolute return [#6]



Performance

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

Source: Data provided by WM Performance Services, and BlackRock

Comments:

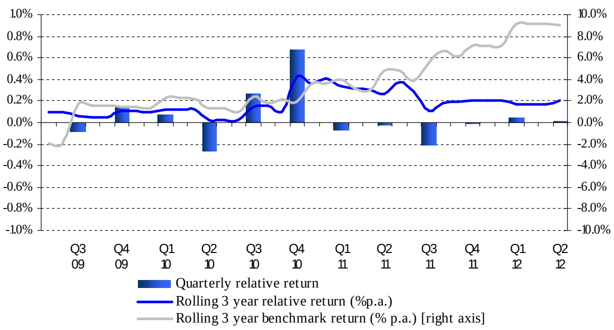
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.
- Asset allocations moved in line with market movements.

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

Mandate	Benchmark	Outperformance target	Inception date
Overseas property	**Customised benchmarks using monthly mean fund weights**	**0%**	**September 2009**

Value (£'000)	% Fund Assets
£72,372	**2.7**

Relative returns [#1]



Performance

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

Source: Data provided by WM Performance Services, and BlackRock

Comments:

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

Appendix A – Market Events

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

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

Economic statistics

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

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

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

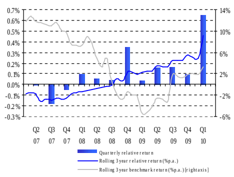
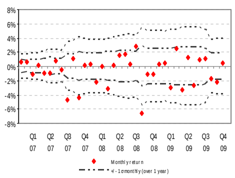
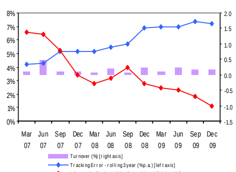
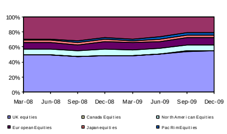
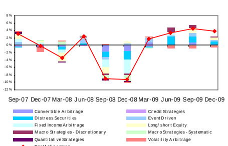
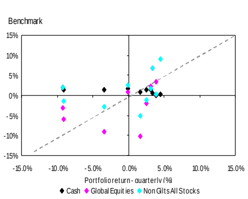
Appendix B – Glossary of Terms

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

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

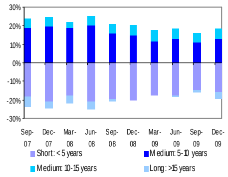
Appendix C – Glossary of Charts

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

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

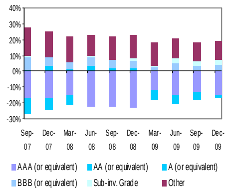
diagonal line.

#8



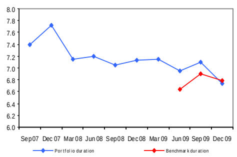
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9



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

#10



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

Appendix D – Summary of Mandates

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

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