Review for period to 30 September 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 an improvement in the funding level over the third quarter of 2012, when considering the impacts of financial markets only.
- The drivers of this are:
  - A positive return on the assets, in particular from equities.
  - A fall in the Market Implied (RPI) inflation assumption used to value the liabilities. This reduces the value of future inflation-linked payments and hence reduces the value of the liabilities.

Fund Performance

- The value of the Fund's assets increased by £91m over the third quarter of 2012 to £2,792m. . The total Fund, (including the impact of currency hedging), outperformed the Fund's strategic benchmark over the quarter by 0.5%, producing an absolute return of 3.6%.

Strategy

- Equity markets generally produced strong returns, with most regions returning around 4-6% over the quarter and producing double-digit returns over the last 12 months. The exception was Japanese equities, which fell over the quarter and year. However, due to the very strong returns of Q3 2009 falling out of the analysis, the 3 year benchmark equity returns have fallen to slightly below the assumed strategic returns.
- Bond returns have been high over the last three years and ahead of the strategic return. This was a result of falling bond yields, although only corporate bond yields continued to fall over the most recent quarter. Low yields potentially limits the return over the next few years.
- Overseas Fixed Interest and hedge funds performed below the assumed strategic return.
- Whilst the 3 year property return was ahead of the strategic return, the bulk of the performance came from the year 2009-2010 (22.6%), with returns over the most recent year being a more modest 3.5%.

Managers

- In line with general market returns, all managers have produced positive returns over the last quarter.
- Each manager has performed in line with or exceeded their benchmark over the last quarter, with the exception of SSgA Europe enhanced indexation (underperformed by 0.1%) and Blackrock Property (by 0.2%).
- The four fund-of-hedge fund managers and TT International have not met their 3-years target performance. TT's performance has improved over recent quarters and the Panel met TT on November 14.
- The number of funds in which Man invests has continued to reduce, and now stands at 54. This quarter, they have outperformed their benchmark by 0.2% but their 3 year return remains negative. The Panel are meeting Man in February 2013.

- In aggregate the managers slightly underperformed the customised benchmark over the year, with outperformance by TT international, Jupiter and Genesis more than offset by underperformance by the hedge funds Man and Stenham.
- There have been no significant concerns raised with any of the Fund's managers.

Key points for consideration

- The fund has unwound a tactical switch from December 2011 over the last quarter, resulting in an asset allocation closer to the strategic benchmark. Further tactical switches will be considered as opportunities arise.
- The performance of Man should continue to be closely monitored as the changes are completed to the portfolio to reduce the number of underlying managers, increase the use of managed accounts and amend the allocation to underlying strategies.

Contents

Section Two – Market Background

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

Yields as at 30 September 2012	% p.a.
UK Equities	3.6
UK Gilts (>15 yrs)	2.9
Real Yield (>5 yrs ILG)	0.1
Corporate Bonds (>15 yrs AA)	4.0
Non-Gilts (>15 yrs)	4.2

Market Returns	3 Mths	1 Year
Growth Assets	**%**	**%**
UK Equities	4.7	17.2
Overseas Equities	3.9	17.4
USA	3.3	25.6
Europe	6.6	12.5
Japan	-3.6	-5.2
Asia Pacific (ex Japan)	6.7	16.2
Emerging Markets	4.6	11.8
Property	0.6	3.5
Hedge Funds	3.4	6.8
Commodities	8.3	8.8
High Yield	2.7	15.9
Cash	0.1	0.5

Absolute Change in Yields	3 Mths	1 Year
	%	%
UK Gilts (>15 yrs)	0.0	-0.6
Index-Linked Gilts (>5 yrs)	0.2	-0.1
Corporate Bonds (>15 yrs AA)	-0.2	-1.1
Non-Gilts (>15 yrs)	-0.4	-0.8

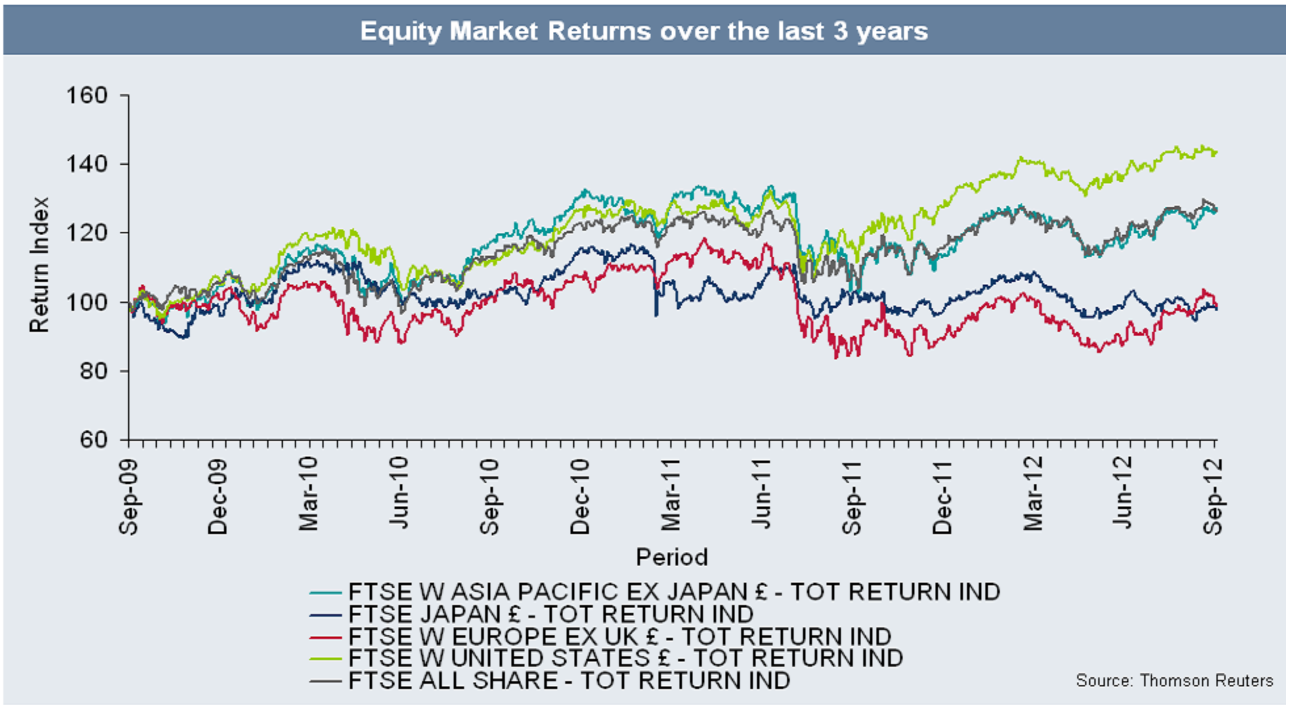
Inflation Indices	3 Mths	1 Year
	%	%
Price Inflation - RPI	1.0	2.6
Price Inflation - CPI	1.0	2.2
Earnings Inflation *	0.3	2.1

Change in Sterling	3 Mths	1 Year
	%	%
Against US Dollar	3.0	3.7
Against Euro	1.6	8.1
Against Yen	0.4	4.6

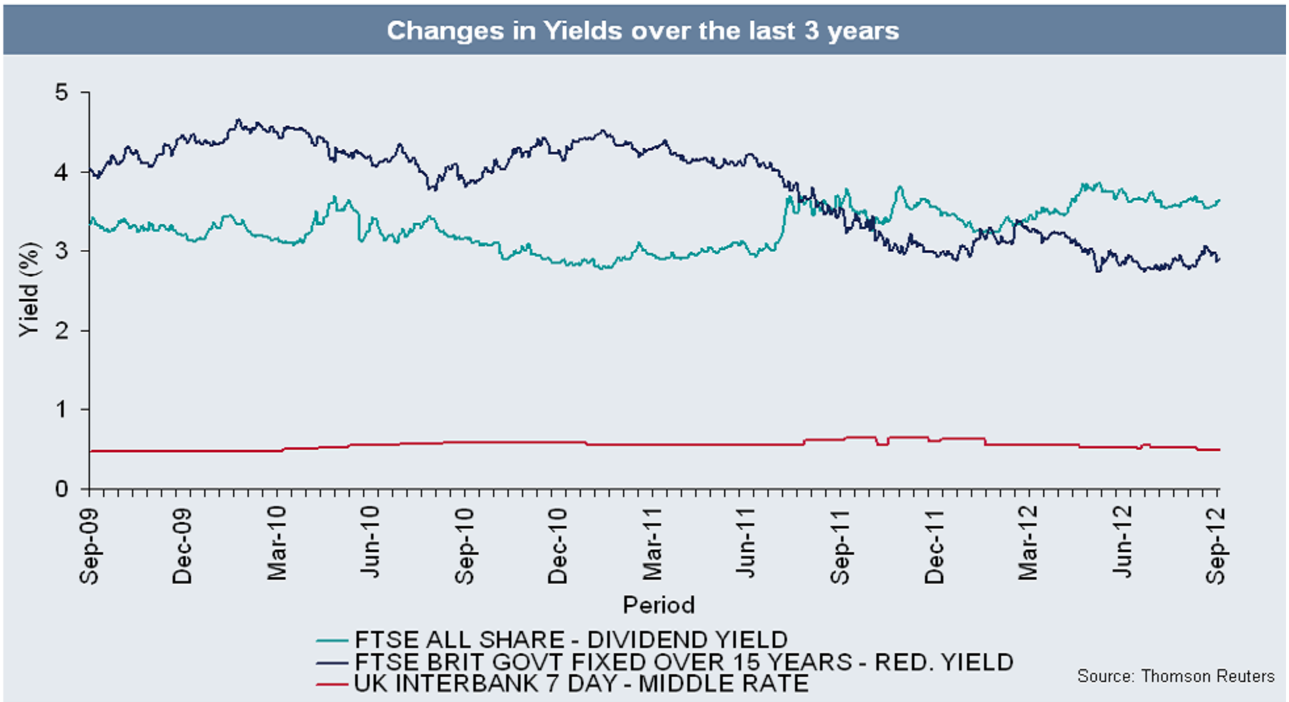
Market Returns	3 Mths	1 Year
Bond Assets	**%**	**%**
UK Gilts (>15 yrs)	1.1	13.0
Index-Linked Gilts (>5 yrs)	-3.2	5.0
Corporate Bonds (>15 yrs AA)	4.3	16.4
Non-Gilts (>15 yrs)	6.3	15.4

* *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 on 30 Sep 2009.



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 18 months.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 September 2012, 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	8.0	Slightly behind the strategic return, reflecting a relatively flat return during 2011. The next three years is less certain due to current economic uncertainty.
Global equities	8.4	7.3	
UK Gilts	4.7	10.7	Significantly ahead of the assumed strategic return as gilt yields have fallen to historic lows and corporate bond yields have also fallen. Over the last quarter, only corporate yields continued to fall, and low yields potentially limits the return over the next few years.
Index Linked Gilts	5.1	9.3	
UK Corporate Bonds	5.6	8.8	
Overseas Fixed Interest	5.6	4.6	Behind the assumed strategic return.
Fund of Hedge Funds	6.6	1.6	Behind the assumed strategic return. Low LIBOR levels could lead to continued low performance.
Property	7.4	11.3	Ahead of the assumed strategic return, although the index return comprises three annual returns of 22.6%, 8.7% and 3.5%.

Source: Statement of Investment Principles, Thomson Reuters.

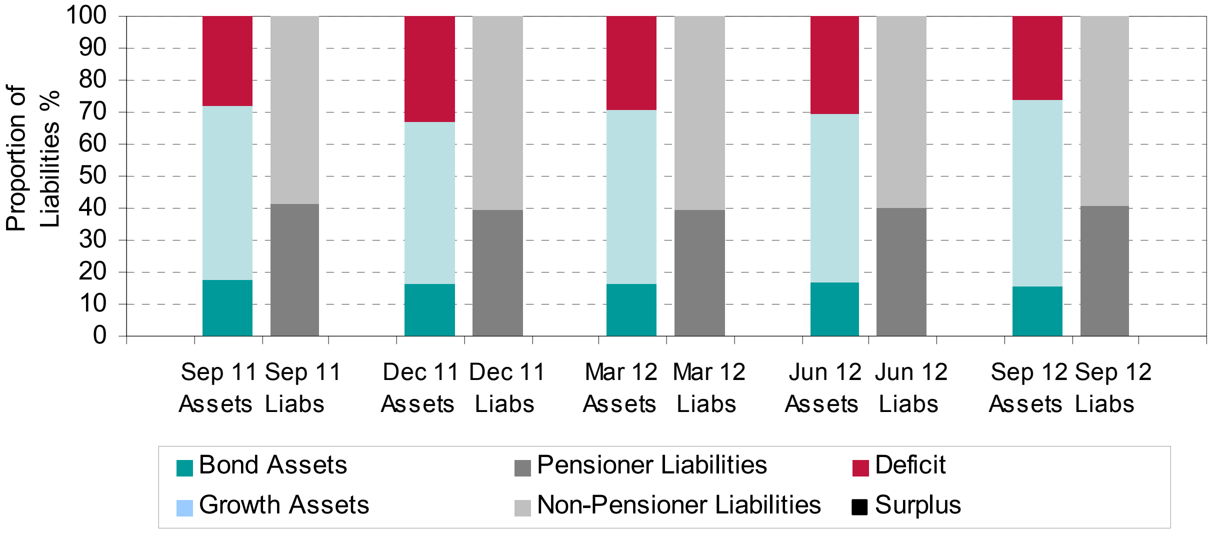
See appendix A for economic data and commentary

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

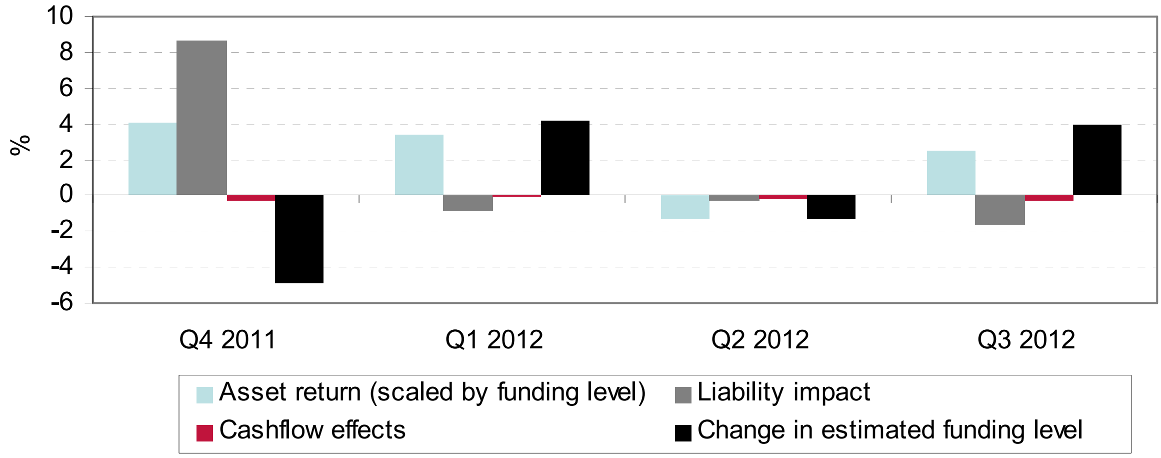
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix 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 increased by around 4% over the third quarter of 2012, all else being equal. This was driven by:
  - A positive return on the assets, in particular from equities.
  - A fall in the Market Implied (RPI) inflation assumption used to value the liabilities. This reduces the value of future inflation-linked payments and hence reduces the value of the liabilities.
- 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, although there has been an improvement over the last quarter and last twelve months.

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.

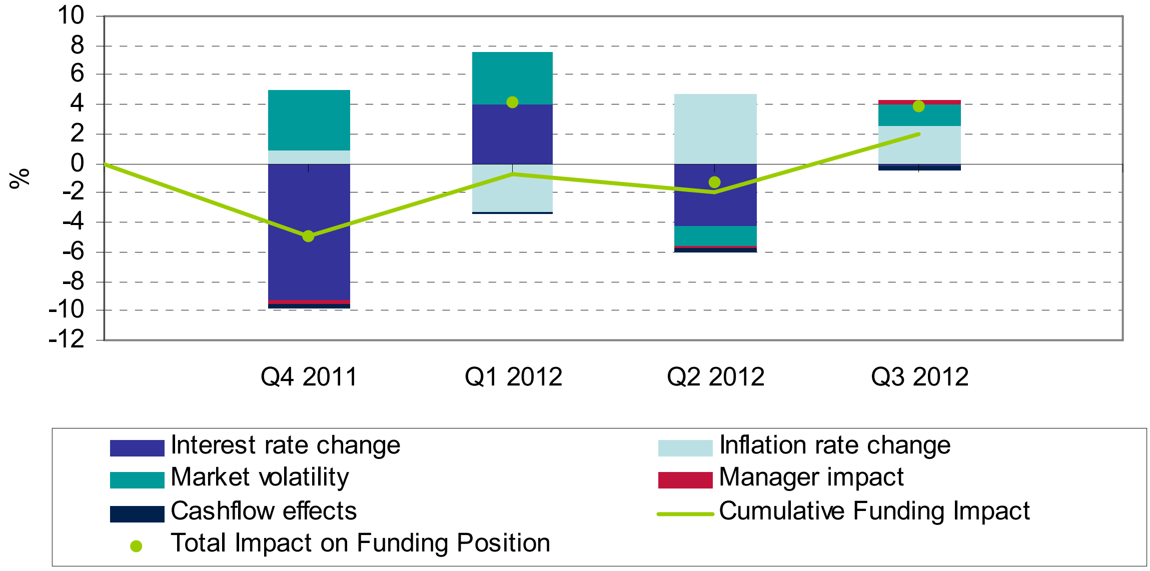


Note 1: A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 2.5%, over the last quarter.
- Over the quarter, the value placed on the liabilities has decreased by an estimated 1.7% mainly due to a reduction in the Actuary's inflation assumption.
- Overall, the combined effect has led to an increase in the estimated funding level to 73% (from 69% at 30/06/2012).

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.



- 'Interest rate change' reflects the impact caused by the difference in the duration of the liabilities compared to the assets. As the liabilities have a longer duration than the assets, when yields fall this has a negative impact, for example as in Q4 2011. Over the last quarter, the discount rate assumption was unchanged resulting in a negligible contribution, which is due to the liabilities unwinding.
- The Market Implied (RPI) inflation assumption has fallen over last two quarters, reducing the estimated liabilites and therefore giving a positive contibution to the estimated funding, as shown by light blue "inflation rate change" bars.
- For Growth assets, 'Market volatility' is simply the (benchmark) return on the assets; for Bond assets it is the return less the return that would be expected given the changes in bond yields. This has been positive over the last quarter mainly due to the rise in equity markets.
- 'Manager impact' is the investment performance compared to the strategic benchmark. This was positive over the last quarter but gives a relatively small contribution compared to the other factors.
- The small 'cashflow effects' reflect factors such as pension payments and contributions/disinvestments.
- Overall the investment factors have had a positive impact on the estimated funding level of the Scheme, both over the last quarter and the last twelve months.

Section Four – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 September 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 September 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	553,400	19.8	18.0
Overseas Equities	1,181,979	42.3	42.0
Bonds	583,999	20.9	20.0
Fund of Hedge Funds	212,978	7.6	10.0
Cash (including currency instruments)	53,633	2.0	-
Property	206,957	7.4	10.0
TOTAL FUND VALUE	**2,792,947**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £91m over the third quarter of 2012 to £2,792m. This was mainly due to strong absolute performance from UK and overseas equities, although each asset class contributed positively to the increase.
- In terms of the asset allocation, there was some re-balancing over the last quarter to move the Fund closer to its strategic benchmark weightings. £80m was switched from bonds, of which £75m was transferred to overseas equities and £5m to cash. Equities performed better than bonds over the last quarter, further increasing the proportion held in equities.
- In percentage terms, bonds reduced by 3.5% (from 24.4% to 20.9%), of which around 2.9% was due to the switch and 0.6% due to market movements. In totality, equities increased by 3.4% (from 58.7% to 62.1%), comprising 2.8% due to the switch and 0.8% from market movements.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2012 Value £'000	30 June 2012 Proportion of Total %	Net new money £'000	30 September 2012 Value £'000	30 September 2012 Proportion of Total %
Jupiter	UK Equities	115,438	4.3	-	121,709	4.4
TT International	UK Equities	131,198	4.9	-	137,884	4.9
Invesco	Global ex-UK Equities	165,283	6.1	10,000	185,007	6.6
Schroder	Global Equities	135,430	5.0	30,000	171,023	6.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	81,646	3.0	-	84,902	3.0
Genesis	Emerging Market Equities	133,548	4.9	-	140,956	5.0
MAN	Fund of Hedge Funds	60,928	2.3	-	61,995	2.2
Signet	Fund of Hedge Funds	63,263	2.3	-	64,713	2.3
Stenham	Fund of Hedge Funds	32,494	1.2	-	32,957	1.2
Gottex	Fund of Hedge Funds	52,560	2.0	-	53,313	1.9
BlackRock	Passive Multi-asset	1,207,763	44.7	34,450	1,271,197	45.5
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	72,372	2.7	-7,463	66,102	2.4
RLAM	Bonds	232,188	8.6	-80,000	166,193	6.0
Schroder	UK Property	129,504	4.8	-	130,228	4.7
Partners	Property	73,553	2.7	7,384	80,408	2.9
Record Currency Mgmt	Dynamic Currency Hedging	-4,864	-0.2		2,815	0.1
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	8,343	0.3		7,114	0.3
Internal Cash	Cash	10,966	0.4	6,446	14,431	0.5
Rounding		-	0.0	-	-	0.0
TOTAL		**2,701,613**	**100.0**	**817**	**2,792,947**	**100.0**

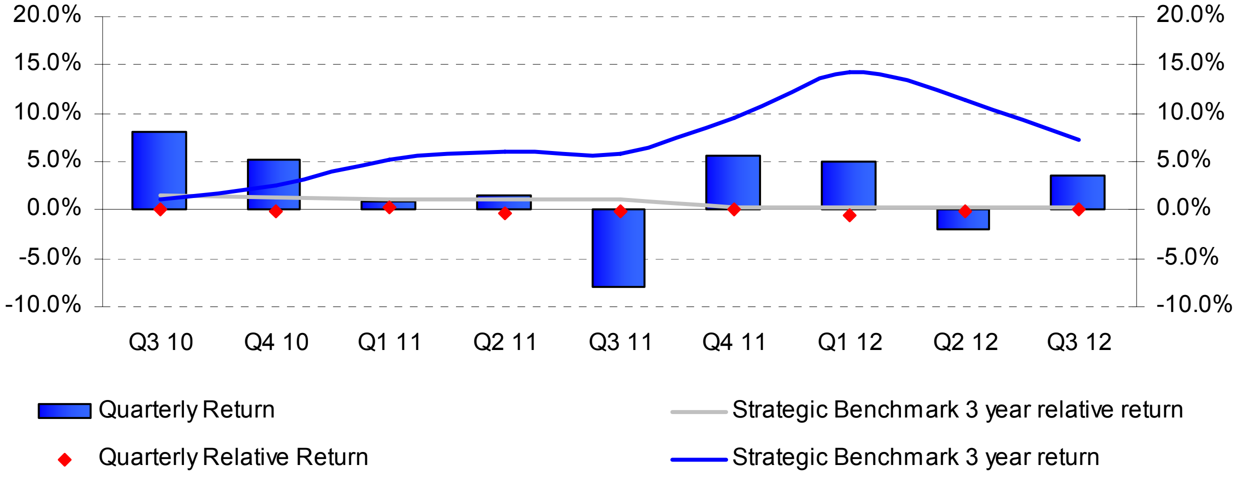
Source: Avon Pension Fund, Data provided by WM Performance Services.

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)	3.6	n/a	n/a
Total Fund (ex currency hedge)	3.3	12.6	7.4
Strategic Benchmark	3.1	12.8	7.4
Relative (inc currency hedge)	+0.5	n/a	n/a
Relative (ex currency hedge)	+0.2	-0.2	0.0

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 September 2012.

Asset Class	Weight in Strategic Benchmark	Index returns Q3 2012	Contribution to total benchmark (quarter)	Index returns 1 year	Contribution to total benchmark (1 year)
UK Equities	18%	4.7%	0.8%	17.2%	3.1%
Overseas Equities	42%	4.1%	1.7%	16.0%	6.7%
Index Linked Gilts	6%	-3.2%	-0.2%	5.0%	0.3%
Fixed Coupon Gilts	6%	1.1%	0.1%	13.0%	0.8%
UK Corporate Bonds*	5%	5.7%	0.3%	13.3%	0.7%
Overseas Fixed Interest	3%	-0.3%	0.0%	-0.9%	0.0%
Fund of Hedge Funds	10%	0.6%	0.1%	-1.1%	-0.1%
Property	10%	0.4%	0.0%	2.8%	0.3%
Total Fund	**100%**				

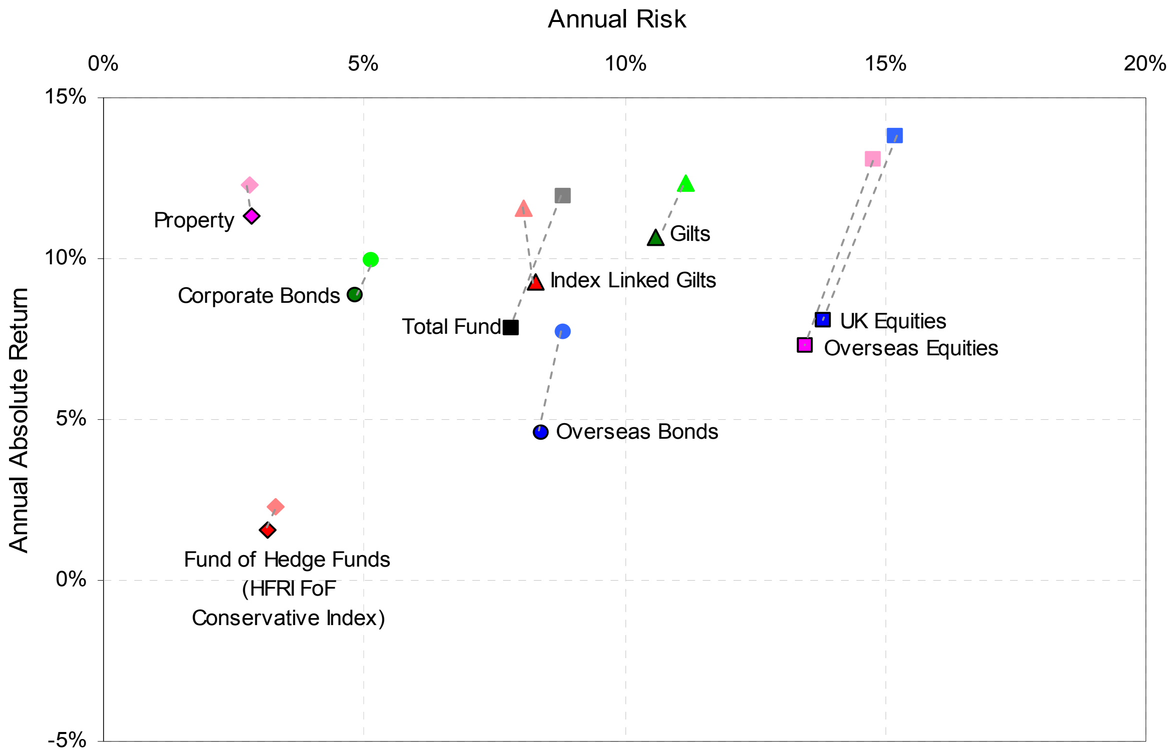
Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differs from the 'long maturities' index returns shown on the Market Background page in Section Two.

- **Market impact:** Global stock markets rallied strongly over the quarter, assisted by the efforts of central banks in Europe, the US and Japan.
- Trade-weighted sterling strengthened a little during the quarter, primarily against the US Dollar which was affected by an improvement in risk appetites. This affected overseas equity returns in sterling terms.
- Corporate bonds significantly outperformed gilts, but both posted positive returns. The average credit spread fell from 2.7% above gilts to 2.2%. Index linked gilts significantly underperformed conventionals.
- Property capital values declined over the quarter, but the income element allowed total returns to remain positive, at 0.4%.
- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, which made up the bulk of the benchmark return in rising markets over both the quarter and year.
- The other asset classes made small contributions, with 0.2% from the fixed interest elements and 0.1% from hedge funds over the quarter.

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 September 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 20.

3 Year Risk v 3 Year Return to 30 September 2012



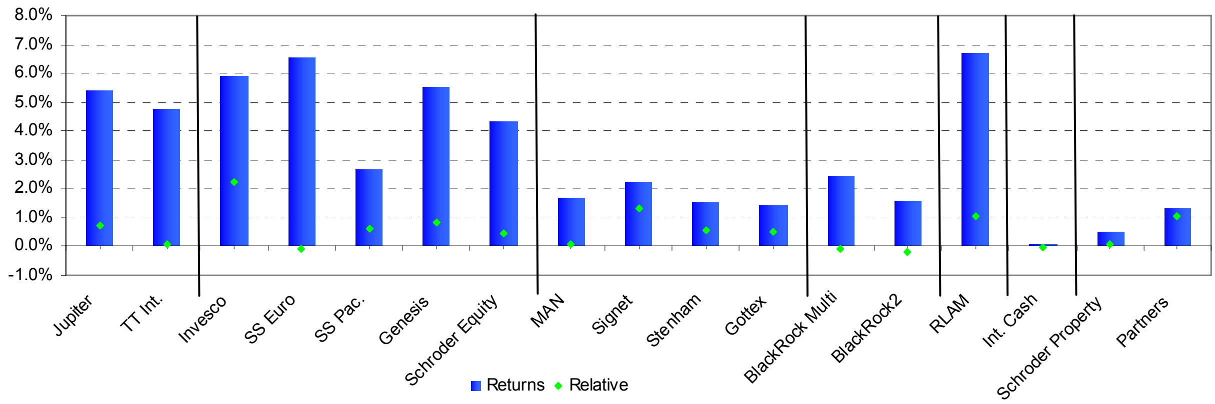
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- The 3 year return on all of the asset classes shown in the chart has fallen compared to the position last quarter.
- In particular, the 3 year equity return (both UK and overseas) has fallen from around 13% p.a to around 8% p.a. This is largely due to the rally during the third quarter 2009 falling out of the analysis, during which time equities rose by more than 20%.
- The volatility of equities, bonds and conventional gilts has fallen, significantly so for equities.
- The asset class with the highest return over three years is now Property, at 11.3% p.a., although the bulk of this growth was in 2009-2010. The second highest is conventional gilts, at 10.7% p.a.
- Property and Fund of Hedge Funds continue to be the least volatile asset classes, with risk/return characteristics broadly similar to last quarter.
- Both UK and overseas equity returns now fall below their assumed strategic return of 8.4% p.a. Overseas Bonds have fallen below their strategic return of 5.6% p.a., and hedge funds remain significantly below their 6.6% p.a. strategic return. The 3 year return on the other asset classes (property, gilts, index-linked gilts and corporate bonds) remain above the respective strategic returns.

Aggregate manager performance

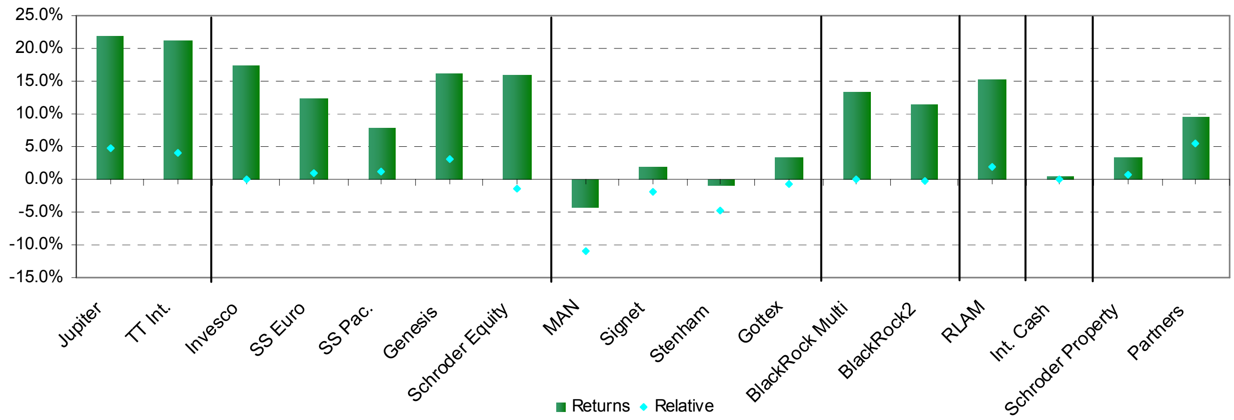
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of September 2012. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

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

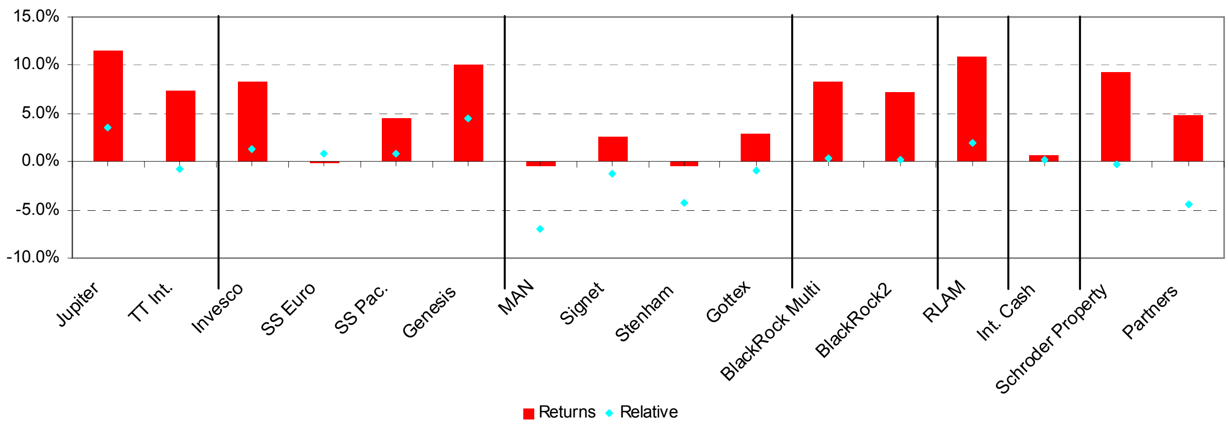


Partners data is lagged by 1 quarter.

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



Absolute and relative performance - **3 years to 30 September 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 September 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.

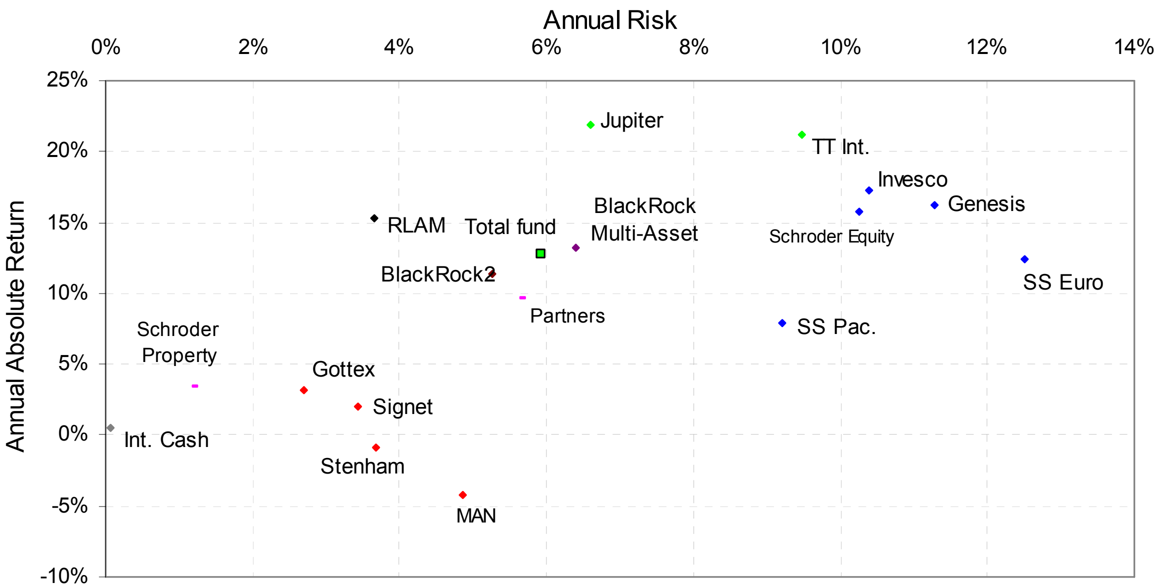
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+0.7	+4.7	+3.4	Target met
TT International	+0.4	+4.2	-0.9	Target not met
Invesco	+2.2	-0.2	+1.3	Target met
SSgA Europe	-0.1	+1.0	+0.5	Target met
SSgA Pacific	+0.8	+1.4	+0.7	Target met
Genesis	+0.7	+3.1	+4.5	Target met
Schroder Equity	+0.4	-1.5	N/A	N/A
Man	+0.2	-10.8	-7.0	Target not met
Signet	+1.3	-1.8	-1.2	Target not met
Stenham	+0.5	-4.9	-4.2	Target not met
Gottex	+0.5	-0.6	-0.9	Target not met
BlackRock Multi - Asset	0.0	-0.2	+0.1	Target met
BlackRock 2	-0.2	-0.1	0.0	Target met
RLAM	+1.2	+2.1	+2.0	Target met
Internal Cash	0.0	0.0	0.0	N/A
Schroder Property	+0.1	+0.7	-0.3	Target not met
Partners Property	+1.0	+5.4	N/A	N/A

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

Manager and Total Fund risk v return

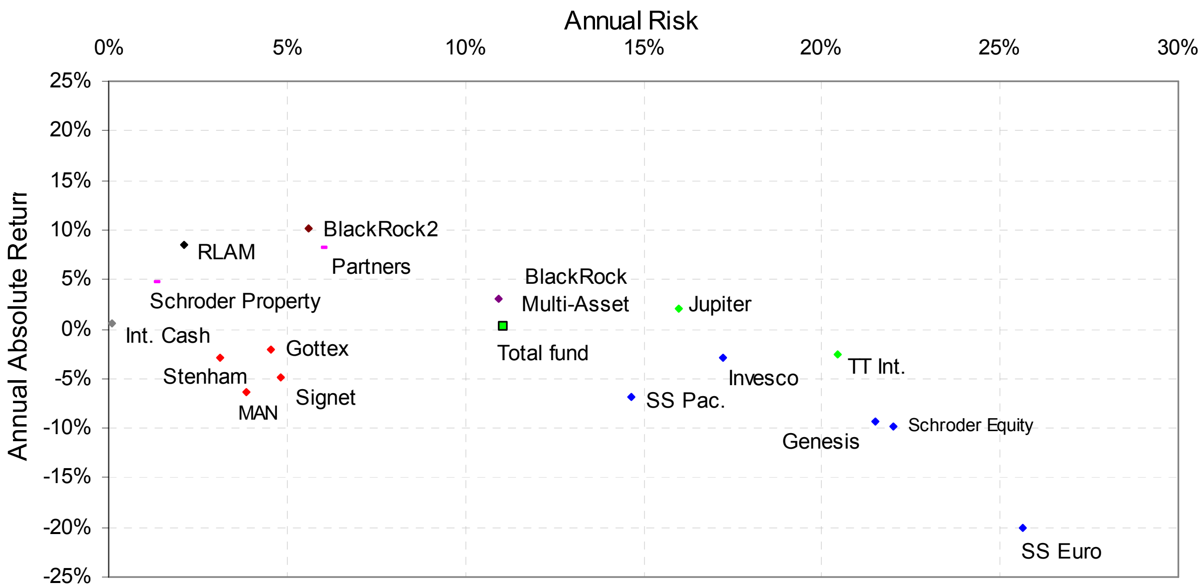
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2012 of each of the funds. We also show the same chart, but with data to 30 June 2012 for comparison.
- Note that the risk scale is different on the charts below, and that the September total will be in the final report.

1 Year Risk v 1 Year Return to 30 September 2012



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 June 2012



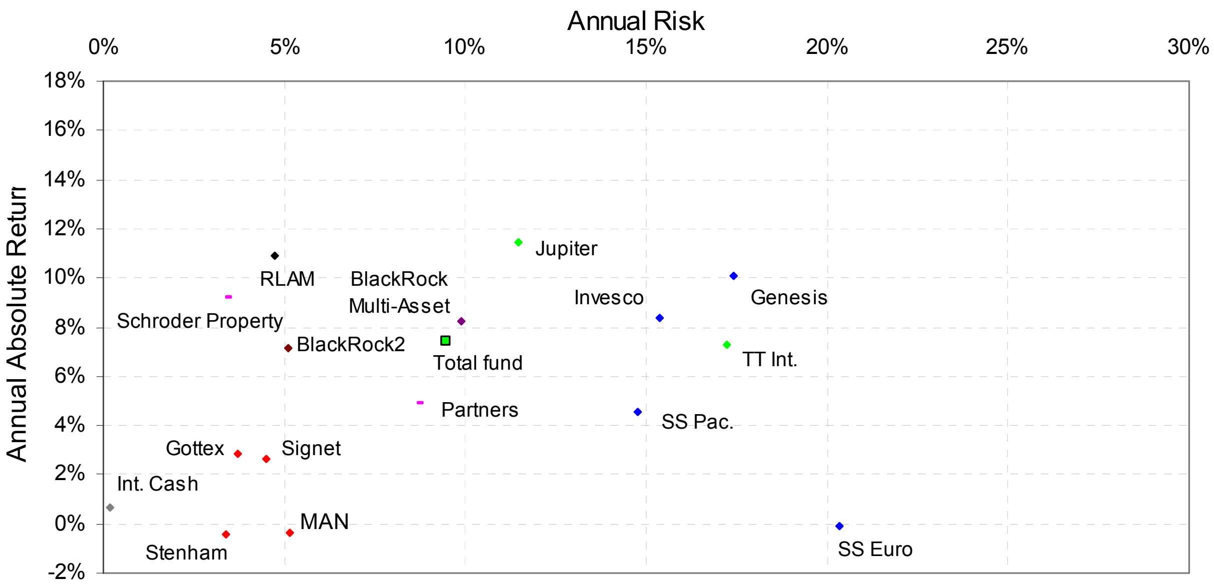
Source: Data provided by WM Performance Services

- 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 1-year returns are higher to September than June for all funds apart from Schroder Property. In particular, for the equity returns it has moved from negative returns to returns generally of 15-20% for the overseas and 22% for the UK funds.
- The risk has reduced for all funds apart from MAN, Stenham and RLAM, by around half for the equity funds.

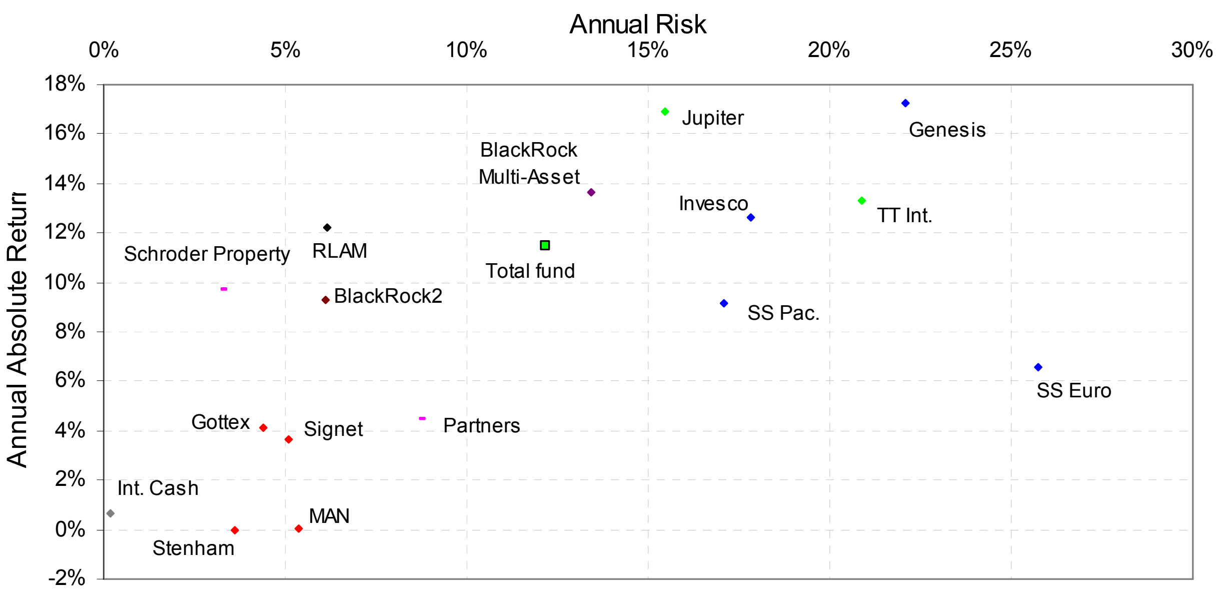
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2012 of each of the funds. We also show the same chart, but with data to 30 June 2012 for comparison.

3 Year Risk v 3 Year Return to 30 September 2012



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 June 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

- The three year returns have all fallen, apart from Partners. Equity fund returns have fallen by around 5% p.a., with the other funds falling by a lesser extent.
- The risk has also reduced by a broadly consistent level across all funds to around 80% of the level as at 30 June. The exception is Schroders Property, which has increased slightly (albeit from a low base).
- In line with the generic chart on page 15, and as expected, the Fund of Hedge Fund managers have provided the least volatile performance and equity managers the most volatile.

Conclusion

- The strongest returns over both the 1 and 3 year period are from equity funds.
- Bond returns continue to be high over the 3 year period, and have been very high over the last 12 months. This was a result of falling yields, which have showed signs of flattening over the last quarter, which reduced the prospects for similarly high returns over the next 3 year period.
- As expected, the Fund of Hedge Fund managers have provided low volatile performance over both the 1 and 3 year periods. However, over the longer 3 year period they have all underperformed their assumed strategic return. Schroders' Property also shows a low volatility.

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.

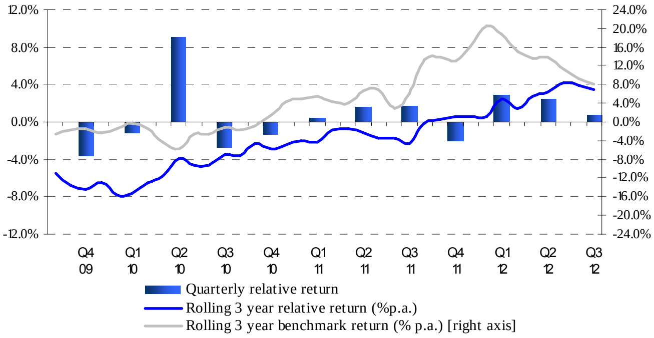
Key points for consideration

- The fund has unwound a tactical switch from December 2011 over the last quarter, resulting in an asset allocation that is closer to the strategic benchmark weight. Further tactical switches could be considered.
- The performance of Man should continue to be closely monitored as the changes are completed to the portfolio to reduce the number of underlying managers, increase the use of managed accounts and amend the allocation to underlying strategies.

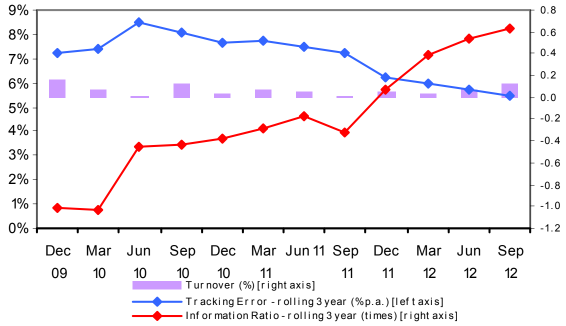
Jupiter Asset Management – UK Equities (Socially Responsible Investing)

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:**
£121,709	4.4	5.5%	Not available

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.4	21.9	11.5
Benchmark	4.7	17.2	8.1
Relative	+0.7	+4.7	+3.4

Source: Data provided by WM Performance Services, and Jupiter

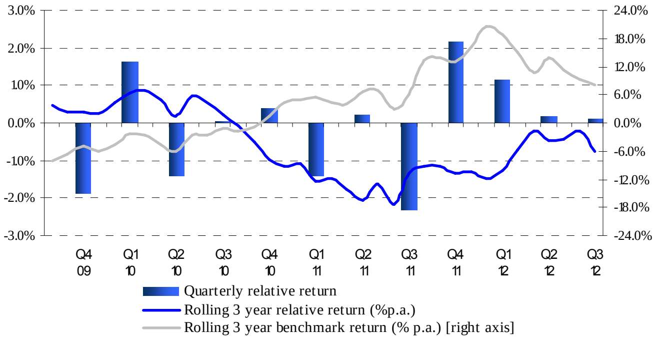
Comments

- The Fund's allocation to Cash (5.6%) decreased marginally compared to the preceding quarter (5.7%) remaining below the 7% limit.
- The industry allocation has continued to remain 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 Q3 2012, Jupiter was significantly underweight in Oil and Gas, Consumer Goods, Basic Materials and Financials, with significantly overweight positions in Industrials, Consumer Services, Utilities and Technology. This relative allocation has been consistent with previous quarters.

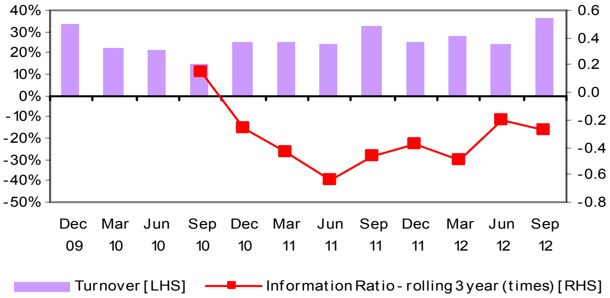
TT International – UK Equities (Unconstrained)

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**
£137,884	**4.9**	**2.6%**	**50**

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.1	21.4	7.2
Benchmark	4.7	17.2	8.1
Relative	+0.4	+4.2	-0.9

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

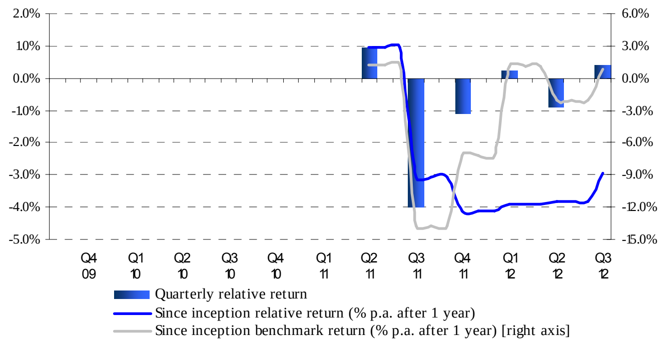
Comments

- The Fund held an overweight position in Industrials by 3.5% and was underweight Healthcare and Financials, by 2.9% and 2.7% respectively, at the end of the quarter.
- Turnover, over the third quarter, increased significantly by 12.7% to 36.6% compared to the last quarter's number of 23.9%. This was the highest turnover rate since Q1 2009.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the last few quarters, to stand at 2.61%. However, there has been a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio (risk adjusted return), fell by 0.07 after an increase last quarter.

Schroder – Global Equity Portfolio (Unconstrained)

Mandate	Benchmark	Outperformance target	Inception date
Global Equities (Unconstrained)	**MSCI AC World Index Free**	**+3.5-4.5%**	**April 2011**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£171,023	**6.1**	**N/A**	**N/A**

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.3	15.9	N/A
Benchmark	3.9	17.4	N/A
Relative	+0.4	-1.6	N/A

Source: Data provided by WM Performance Services, and Schroders

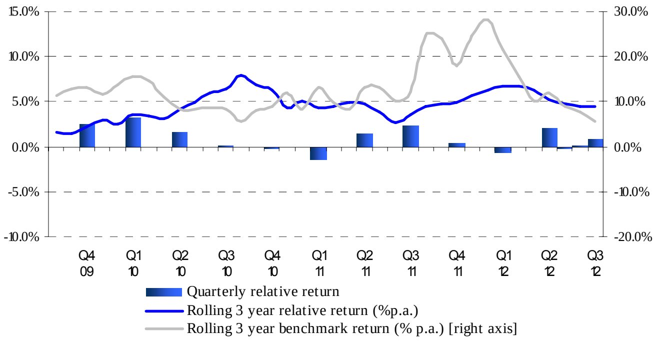
Comments

- The portfolio outperformed over the quarter as market sentiment turned positive. Many of the stocks that were weak in Q2, including Google, rebounded in Q3. As the price of gold rallied, their stock, Newcrest Mining, was also a strong performer.
- Schroder remain cautious towards Continental Europe, with a low exposure. However, this detracted over the last quarter as low quality European stocks produced strong returns as investor sentiment improved.
- In terms of country weightings, the largest overweight position is Japan (+2.5%), moving from a broadly neutral position last quarter. North America remains the most underweight (-3.1%), with the United Kingdom now underweight (-1.3%) compared to +2.2% on 30 June. European exposure has increased, but remains underweight (-0.4%)
- In terms of sector weightings, there is more deviation from the benchmark weighting at 30 September compared to 30 June. Consumer Discretionary (+2.9%) remains the most overweight, and the fund is now also overweight in Healthcare, Industrials and Information Technology. Financials, Energy and Telecoms remain underweight.
- Schroder continue to pursue companies which should benefit from longer-term global trends, and believe that market is still too focussed on the short-term, due to mixed economic data and volatile conditions. 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'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.
- Officers will continue to monitor performance and Schroder are meeting the Panel in February 2013.

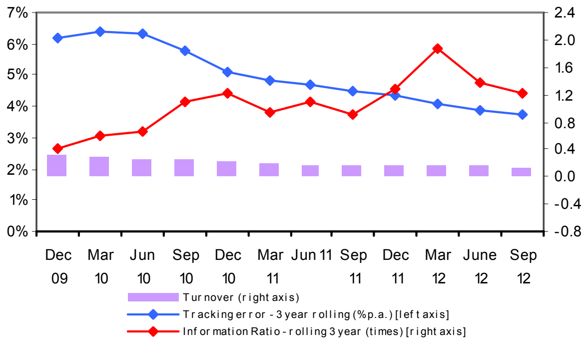
Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance target	Inception date
Emerging Market equities	MSCI EM IMI TR	-	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£140,956	5.0	3.7%	160

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.5	16.3	10.1
Benchmark	4.8	13.1	5.6
relative	+0.7	+3.1	+4.5

Source: Data provided by WM Performance Services, and Genesis

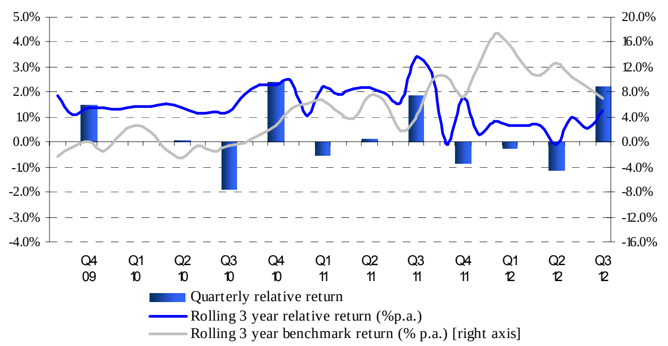
Comments:

- The Fund is overweight to India, South Africa and Russia, and underweight to South Korea and China. Maintaining the underweight position in China is partly due to the restrictions on non-local investors. Please note that the over- and underweights 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 3.9% in Q2 2012 to 3.7% in Q3 2012. This is the 11th consecutive quarter of a reduction in the tracking error. The 3 year information ratio (risk adjusted return), fell from 1.4 to 1.2.
- The allocation to Cash (1.9%) increased slightly compared to the previous quarter (1.5%).
- On an industry basis, the Fund is overweight Consumer Staples (+6.7%), Health Care (+2.7%) and Materials (1.2%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-4.6%) and Telecom Services (-2.5%). These are broadly similar positions to last quarter.

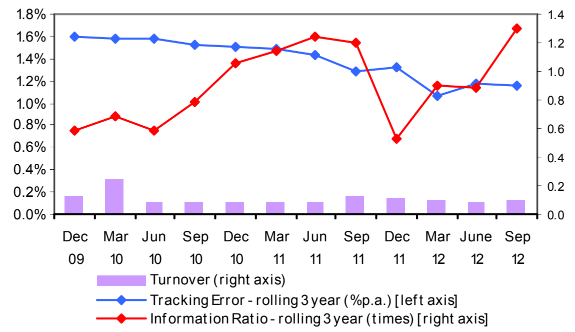
Invesco – Global ex-UK Equities (Enhanced Indexation)

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**
£185,007	6.6	1.2%	365

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.8	17.2	8.4
Benchmark	3.6	17.4	7.1
relative	+2.2	-0.2	+1.3

Source: Data provided by WM Performance Services, and Invesco

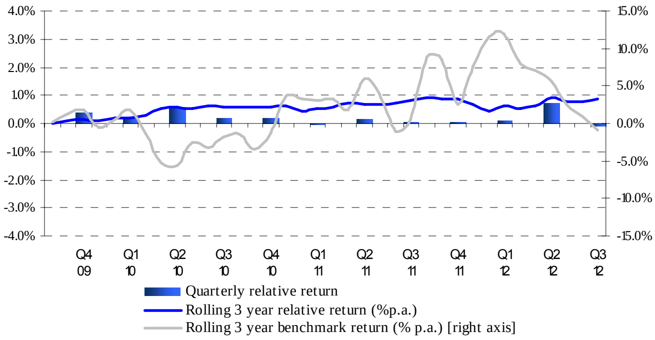
Comments:

- Over the last quarter, all strategies continued to be positive contributors except for Style and Sector selection.
- The absolute volatility has decreased to 8.9% at the end of the third quarter compared to 13.2% at the end of the second quarter.
- The turnover for this quarter of 10.4% increased from 9.2% in the previous quarter. This is the first quarter that the turnover has increased after three consecutive quarters of reducing turnover. The number of stocks (365) remained almost at par compared to the previous quarter (372).
- The industry allocation is relatively in line with the benchmark industry allocations. Apart from Consumer Staples (-1.1%), 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 returned above the benchmark due to both good performance this quarter and poor performance from Q3 2009 falling out of the analysis.

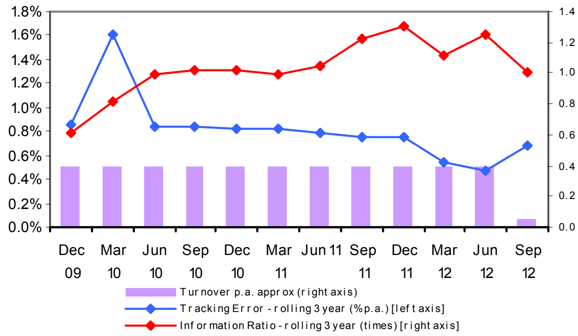
SSgA – Europe ex-UK Equities (Enhanced Indexation)

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**
£28,833	1.0	0.7%	120

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	6.4	12.3	-0.2
Benchmark	6.5	11.3	-0.7
relative	-0.1	+1.0	+0.5

Source: Data provided by WM Performance Services, and SSgA

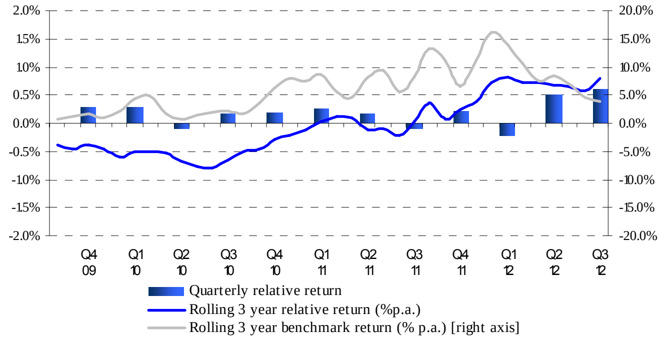
Comments:

- France, Germany and Switzerland make up over 60% of the fund's benchmark - it is overweight in Germany and underweight in Switzerland.
- As previously reported, the pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. As at the end of the third quarter of 2012, it stands at £113.53 million.
- Turnover has fallen for the first time from 40.0% to 5.2%. The tracking error has increased for the first time since the last five quarters.
- The information ratio has fallen this quarter following an increase in the previous quarter.

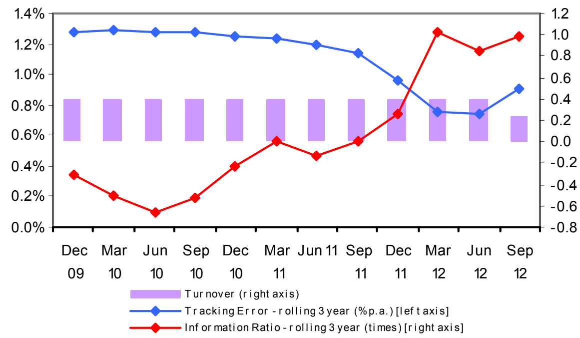
SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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**
£56,069	2.0	0.9%	444

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.8	8.0	4.5
Benchmark	2.0	6.6	3.8
relative	+0.8	+1.4	+0.7

Source: Data provided by WM Performance Services, and SSgA

Comments:

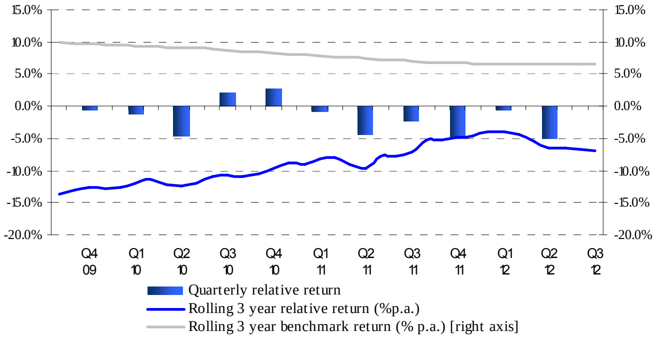
- In terms of country allocation, there are no significant deviations away from the benchmark. Just under half of the fund is invested in Japan.
- Turnover has fallen for the first time to 23.5% from the static 40.0%.
- The information ratio (+0.98) has increased compared to the previous quarter (+0.85).
- The tracking error of the fund has increased for the first time eight quarters.

MAN – Fund of Hedge Funds

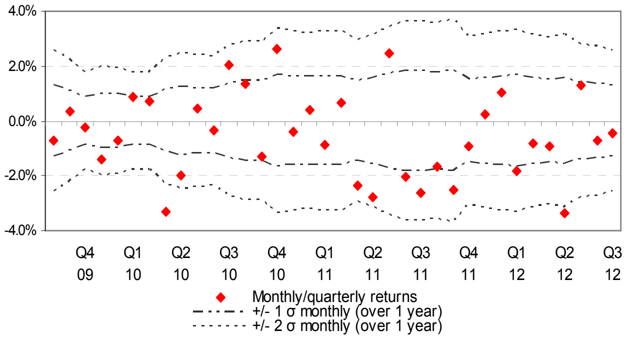
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +5.75%	5.4%	August 2007

Value (£'000)	% Fund Assets	Number of funds
£61,995	2.2	54

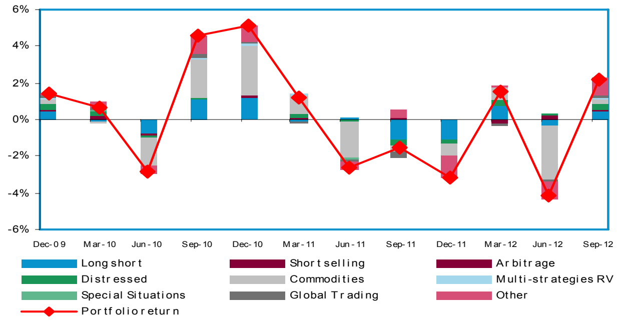
Relative returns #1



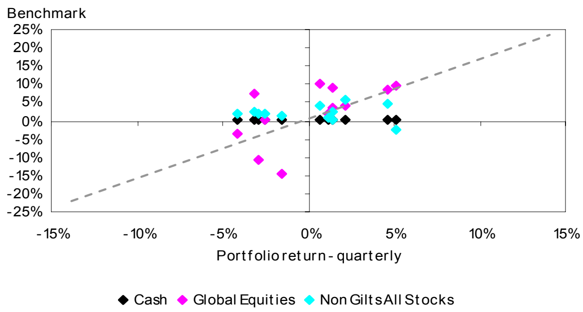
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.8	-4.1	-0.4
Benchmark	1.6	6.7	6.6
relative	+0.2	-10.8	-7.0

Source: Data provided by WM Performance Services, and MAN

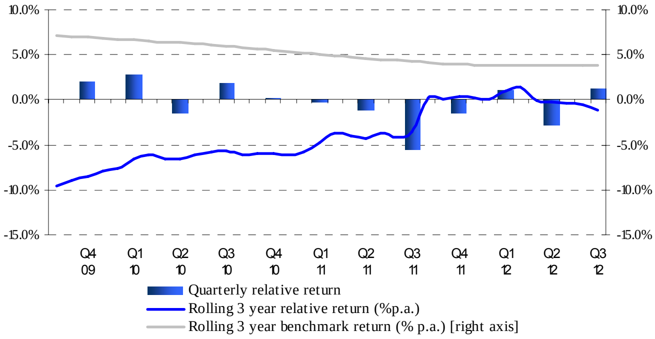
Comments:

- Man has a higher outperformance target than the other fund of hedge fund managers. This is partly responsible for a weaker long-term performance. Their 3 year absolute performance is the same as Stenham at -0.4% p.a.
- 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. The number of funds has further reduced over the past quarter from 66 to 54, which compares to 75 at the end of March.
- 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.

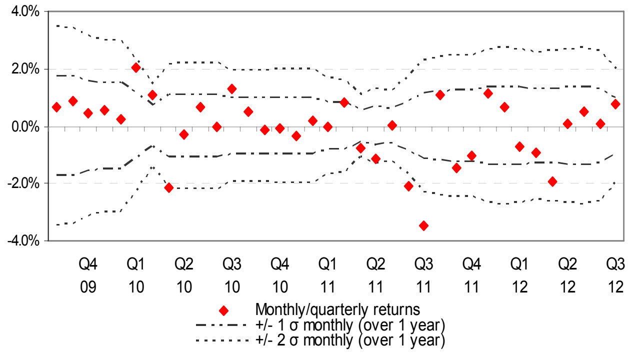
Signet – Fund of Hedge Funds

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**	
£64,713	**2.3**	**45**	

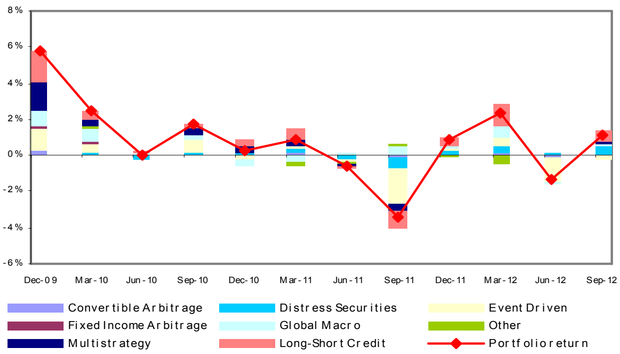
Relative returns #1



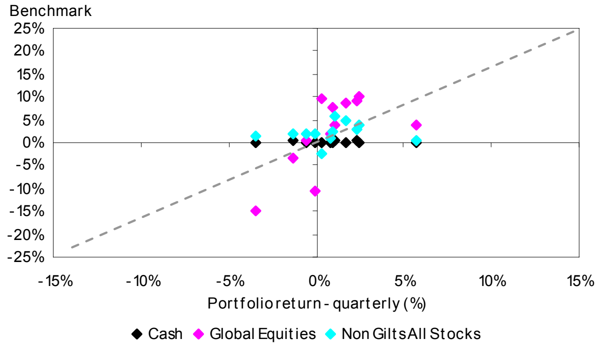
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.2	2.1	2.6
Benchmark	0.9	3.9	3.8
relative	+1.3	-1.8	-1.2

Source: Data provided by WM Performance Services, and Signet

Comments:

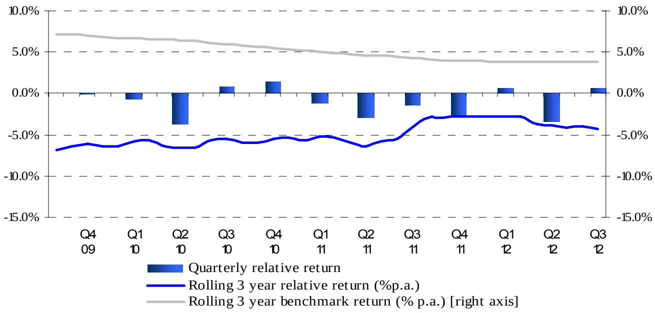
- Most strategies contributed to the positive absolute returns. Event Driven, Volatility Arbitrage, Long-Short Equity and Portfolio Protection strategies produced negative returns.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Stenham – Fund of Hedge Funds

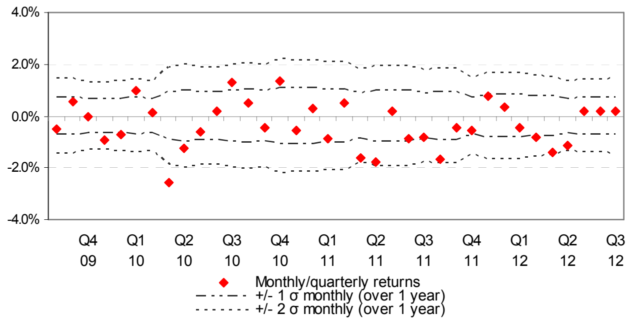
Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.1%	August 2007

Value (£'000)	% Fund Assets	Number of funds
£32,957	1.2	35

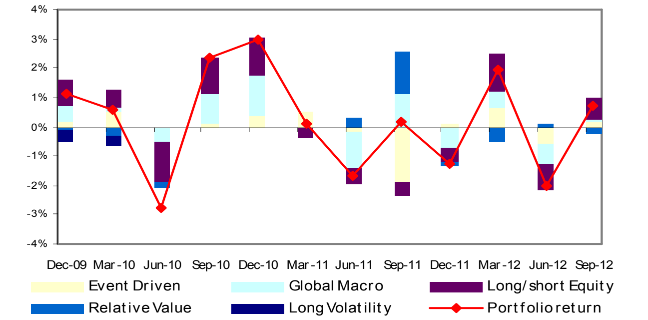
Relative returns [1]



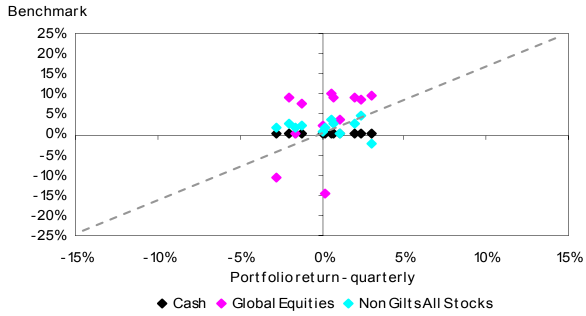
Monthly relative returns [2]



Hedge fund strategies and source of return [6]



Correlation with indices [7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.4	-1.0	-0.4
Benchmark	0.9	3.9	3.8
relative	+0.5	-4.9	-4.2

Source: Data provided by WM Performance Services, and Stenham

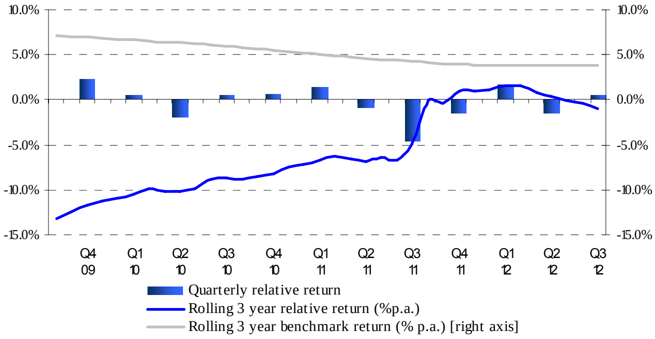
Comments:

- Relative value strategies produced the lowest return over the quarter, and detracted 0.3% from the portfolio. Global Macro and Long Volatility were neutral. The positive contribution to performance came only from Long/short Equity (0.8%) and Event Driven (0.2%) strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 69.0% of the total Fund allocation. The allocation to Cash increased from 1.0% to 3.0% over the quarter. This is the first increase to the allocation to Cash after four consecutive quarters of a decrease.
- 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.

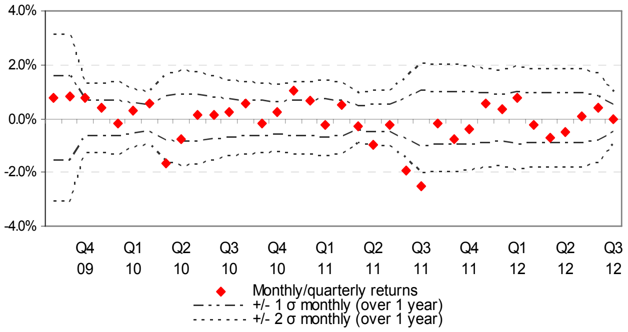
Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +3.0%**	**2.7%**	**August 2007**
Value (£'000)	**% Fund Assets**	**Number of funds**	
£53,313	**1.9**	**Not available**	

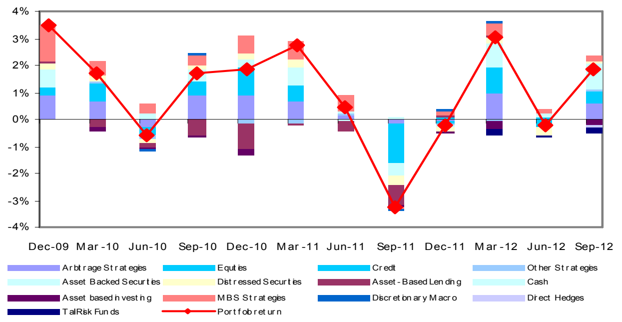
Relative returns [#1]



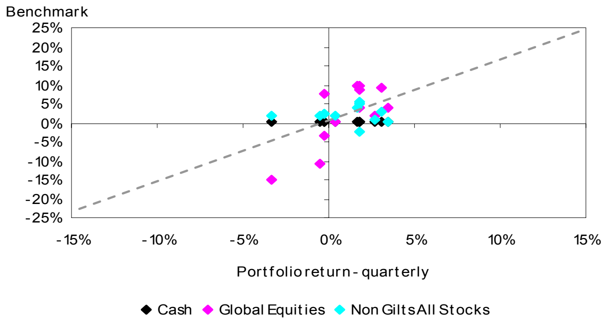
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.4	3.3	2.9
Benchmark	0.9	3.9	3.8
relative	+0.5	-0.6	-0.9

Source: Data provided by WM Performance Services, and Gottex

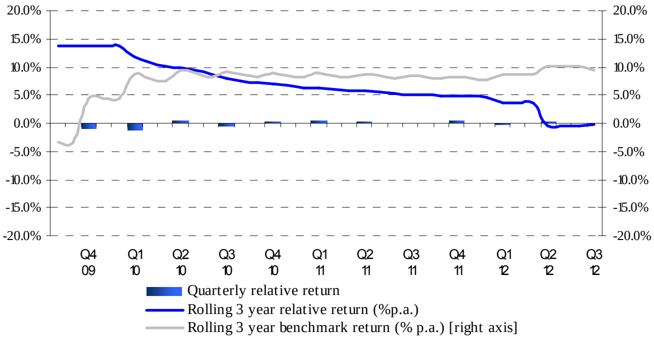
Comments:

- 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.

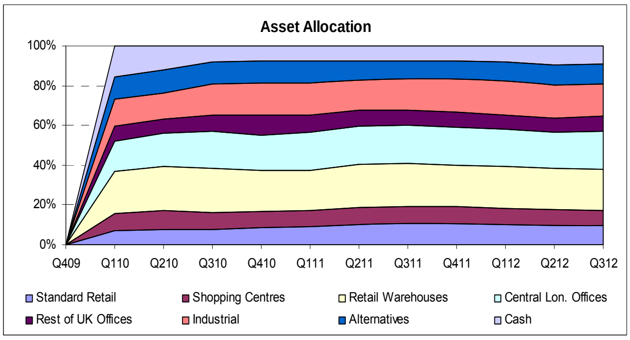
Schroder – UK Property

Mandate	Benchmark	Outperformance target	Inception date
UK property	IPD UK pooled	+1.0%	February 2009
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of funds**
£130,228	4.7	Not available	16

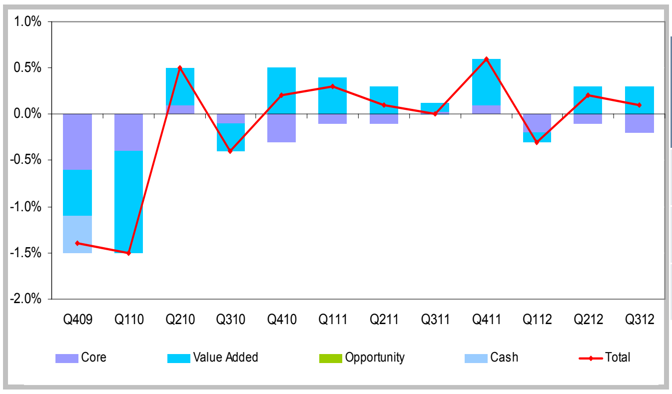
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.5	3.5	9.2
Benchmark	0.4	2.8	9.5
relative	+0.1	+0.7	-0.3

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.
- The style of underlying fund held are divided into 'core' and 'value add'. Their outperformance has come from 'value add' managers, offset to come extent by the 'core' managers, both over the quarter and year.
- There were two transactions during the quarter, the final drawdown for the Real Income Fund (circa £236,000) and the second drawdown for the Local Retail Fund (circa £215,000).
- They continue to hold an overweight position relative to benchmark in Central London offices, where demand has remained strong.
- Schroder continue to forecast flat total returns in 2012, as capital value declines largely offset the property income return.

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

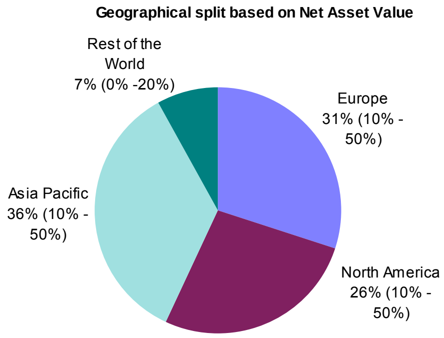
To date, Partners have drawn down approximately £78 million, or approximately 59% of the Fund's intended commitment of approximately £132 million. A total of £7.65 million was drawn down over the quarter, across all of the funds listed below apart from Distressed US Real Estate 2009, which has already drawn down most of its commitments. The draw downs commenced in September 2009.

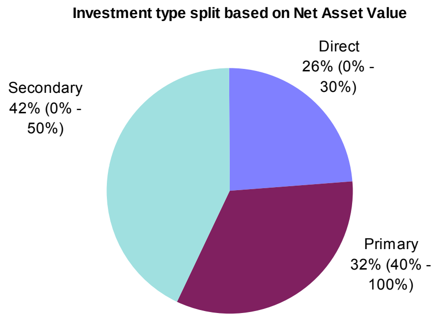
The funds invested to date have been split by Partners as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 September 2012 (£ Million)	Since inception Net IRR
Asia Pacific and Emerging Market Real Estate 2009	11.50	12.06	9.4%
Direct Real Estate 2011	3.38	3.37	0.4%
Distressed US Real Estate 2009	12.41	12.46	10.5%
Global Real Estate 2008	29.70	30.17	9.6%
Global Real Estate 2011	9.73	10.04	9.2%
Real Estate Secondary 2009	11.10	12.31	19.5%
Total	**77.82**	**80.41**	**10.7%**

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

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 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, 50% of the commitments are allocated to primary investments.

Performance over Q3 2012

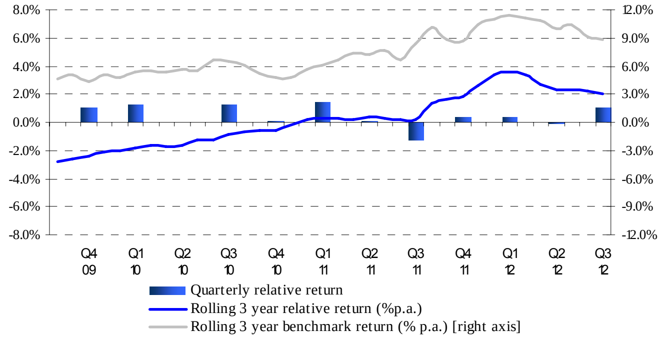
Distributions since inception total £7.71m, with no distributions over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Performance over Q2 2012 was positive, with the manager producing a return of 1.3%, which was ahead of the benchmark by 1.0%. Over the 1 year to 30 June 2012, the performance of Partners was 9.6%, against a benchmark return of 4.2%.

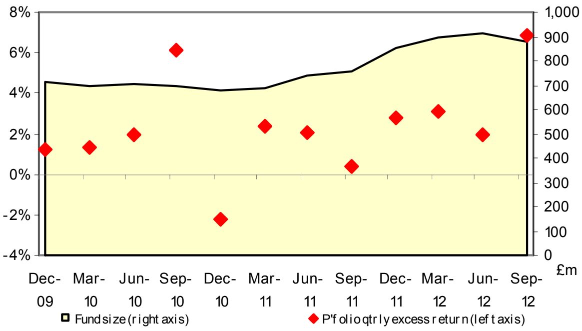
Royal London Asset Management – Fixed Interest

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**	
£166,193	6.0	248	

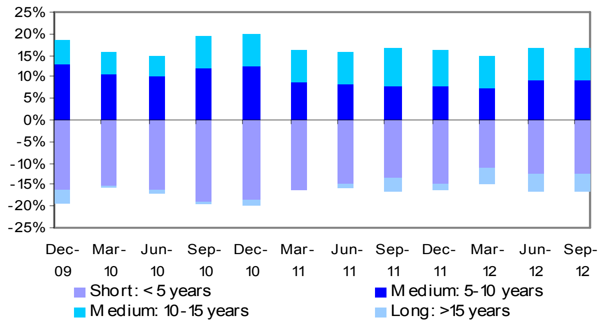
Relative returns [#1]



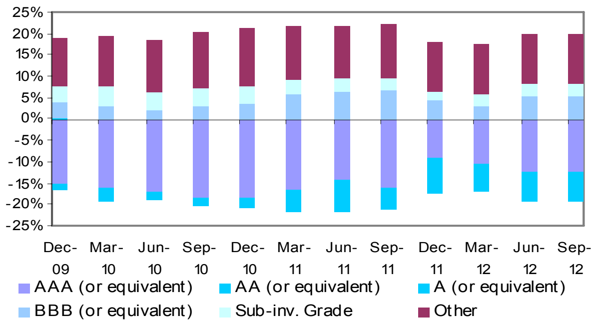
Performance v fund size [#3]



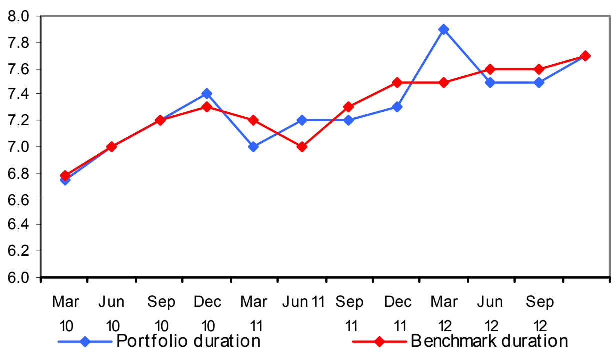
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	6.9	15.4	10.9
Benchmark	5.7	13.3	8.9
relative	+1.2	+2.1	+2.0

Source: Data provided by WM Performance Services, and RLAM

Comments:

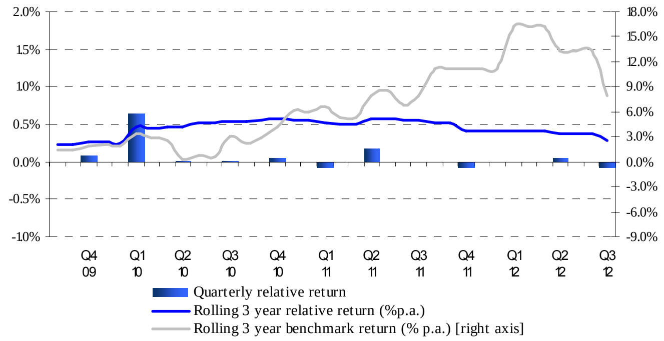
- RLAM have maintained a consistent philosophy for some time - the Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- Similarly, RLAM favour medium term maturity bonds.
- Performance relative to the benchmark may be volatile 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

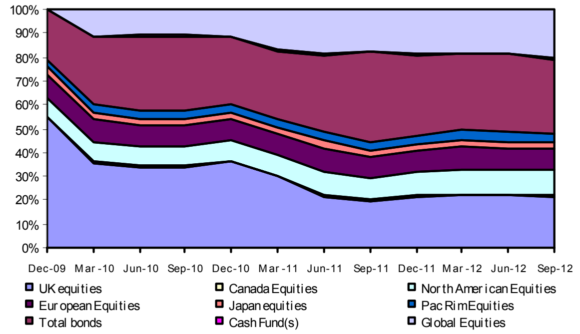
Mandate	Benchmark	Outperformance target	Inception date
Passive multi-asset	**In line with customised benchmarks using monthly mean fund weights**	**0%**	**April 2003**

Value (£'000)	% Fund Assets
£1,271,197	**45.5**

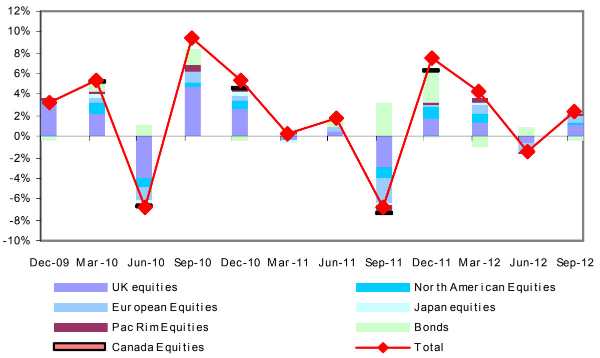
Relative returns #1



Asset Allocation #5



Contribution to absolute return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.5	13.2	8.2
Benchmark	2.5	13.4	8.1
relative	0.0	-0.2	+0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

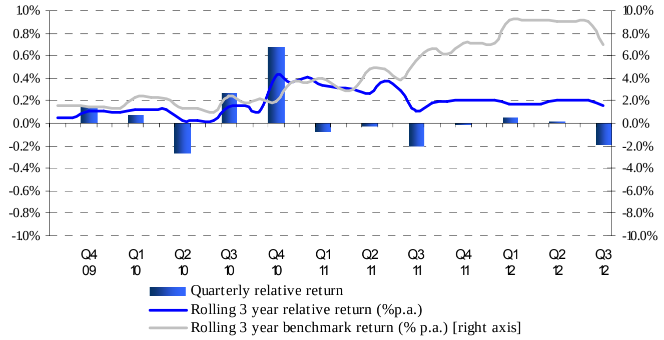
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.

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
£66,102	2.4

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	11.4	7.1
Benchmark	1.8	11.5	7.1
relative	-0.2	-0.1	0.0

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holdings in European Equities reduced to zero (from 6.2%) and the cash level increased to around one-quarter of the Fund. The allocation UK Equity Futures and US Equities also increased, with UK Gilts reduced.
- UK Gilts and UK Equity Futures were the two largest contributors to the positive absolute return, with a small negative contribution from 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% over the quarter whilst QE measures were held at £375bn, providing some stability to markets.	• The demise of JJB Sports, closely followed by Optical Express, although long expected in the former's case, is another indication that the UK economy is not out of the woods yet.
	• CPI inflation remained within the Bank of England's target range over the quarter. The latest Office of National Statistics figure showed CPI at 2.2% in September.	• Unemployment was high through the quarter maintaining levels seen previously.
	• The recession we have been experiencing has been marked by a lower-than-usual rate of insolvency amongst companies. Corporate profits held up well in large parts of the economy (ex the service sector), driven mainly by exports.	• The latest Purchasing Managers Index (PMI) registered 52.2 as at August. This is above the 50.0 (no change) point and represents slightly increasing confidence in the economic situation.
Overseas Equities		
North America	• US GDP growth remained in positive territory over the quarter. It is currently stated at 1.3% for Q2 2012 down from the initial estimates of 1.7%. US unemployment fell to its lowest level since January 2009 over Q3. The percentage of US unemployment is now 7.8% down from 8.1% last quarter.	• Companies are likely to remain cautious in their spending and hiring decisions ahead of the upcoming US election and potential 'fiscal cliff' through the simultaneous expiry of tax cuts and imposition of spending cuts in 2013 that could occur.
	• The US Fed launched QE3 (even QE3+) during the quarter. This latest programme consists of the Fed promising to purchase $40bn of assets each month until the labour market significantly improves. This provided a welcome boost for markets towards the end of the quarter.	• The likely Presidential election outcome has reached a new peak of uncertainty with the first of the televised debates. These have proved to be a source of worry for markets.

Asset Class	What Happened?	
	Positive Factors	**Negative Factors**
Europe	• The ECB maintained interest rates over the quarter and announced a series of asset purchases over the quarter in an attempt to provide liquidity and increase confidence in markets.	• Unemployment remains high - particularly in peripheral Eurozone countries as austerity measures impact on confidence. Some areas are seeing unemployment in certain sections of the population in excess of 50%.
	• These increased bailout funds are seen as proof of the political class's commitment to the Euro. Despite the recent 'relief' rally on the back of Mario Draghi's comments, equity markets are still a long way from their previous highs.	• Spanish debt costs rose with investor confidence declining as investors doubted Spain's ability to repay its debt. Civil unrest on the street of major Spanish cities increased as austerity budgets continued to reduce the population's standard of living.
Japan	• Valuations still look cheap relative to the rest of the region, particularly as the rebuilding work continues. However, performance has been stymied in Sterling terms as a result of exchange rate movements.	• Politics in both China and Japan seem to have helped escalate the long running dispute over the Senkaku Islands, enough to spook investors. China is a very important market for Japan, both as a customer and as a base for manufacture. Exports to China are now higher than to the USA and recent protests are undermining investor confidence.
Asia Pacific	• Most central banks held their interest rate strategy, helping market confidence. The exceptions were as in Q2, with cuts in Australia as they expect more challenging times ahead and in China, which is trying to stimulate growth.	• Asian Equities have largely moved sideways in recent months, weighed down by concerns over Europe (and the effect on exports) and, more significantly, China, where the economic outlook has worsened.
		• In China manufacturing data has fallen to a nine-month low. The economic slowdown in China is being complicated by the leadership transition in early November, already providing much negative publicity.
Emerging Markets	• Global Emerging Markets have had a volatile quarter. The weak global economy provides major headwinds to growth in the developing world.	• Stagnant commodity prices but rising food prices are also a concern in the short term.
	• Although Global Emerging Markets experienced slower GDP growth over the quarter, this was still significantly higher than that experienced by the developed markets.	• Political instability is the main investor concern at present with the political leadership of China changing and the continued uncertainties in the middle eastern regions proving a drag to growth.

Asset Class	What Happened?	
	Positive Factors	**Negative Factors**
Gilts	• In a repeat of Q2 the demand for Gilts has proved resilient. Government bond yields remain at near record lows, as the UK continued its 'safe haven' status among sovereign debt issuers. However expensive Gilts may look, until the European Debt crisis is resolved, this situation may continue.	• CPI inflation remained within the Bank of England's target range over the quarter. The latest Office of National Statistics figure showed CPI at 2.2% in September. • The recent German Constitutional Court judgement appeared to take some risk off the table for markets however, there is still a high degree of uncertainty surrounding this asset class and the 10 year+ remains particularly vulnerable to market shocks.
Index Linked Gilts	• Demand for Index Linked Gilts remains as limited supply supports the price and investors continue to seek protection against inflation.	• Yields turned slightly positive in Q3. With a review underway by the Office of National Statistics into the calculation of RPI, markets seem to have assumed that the calculation basis will change to bring RPI closer to CPI.
Corporate Bonds	• Sterling Corporate Bonds had high positive returns. Markets also approved of the Eurozone's efforts to support the sovereign bond markets.	• The Corporate Bond Market is currently suffering from a lack of liquidity meaning that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they have done throughout 2012.	• The well established trend of overall void levels increasing in tandem with the lowering of capital values as well as falling rental yields continued through Q3.

Economic statistics

	Quarter to 30 September 2012			Year to 30 September 2012		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	1.0%	n/a	0.5%	0.0%	n/a	2.3%
Unemployment rate	7.9%	*10.7%*[4]	7.8%	7.9%	10.7%[4]	7.8%
Previous	*8.1%*	*10.6%*[u]	*8.2%*	*8.1%*	*9.7%*	*9.0%*[u]
Inflation change[2]	1.0%	0.6%	0.8%	2.2%	2.6%	2.0%
Manufacturing Purchasing Managers' Index	48.4	46.1	51.5	48.4	46.1	51.5
Previous	*48.4*	*45.1*	*49.7*	*51.1*	*48.5*	*50.8*
Quantitative Easing / LTRO [3]	£375bn	€1,018bn	$2,694bn	£375bn	€1,018bn	$2,694bn
Previous	*£325bn*	*€1,018bn*	*$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 September 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 August 2012; (u) Updated since our previous reports.

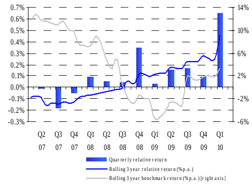
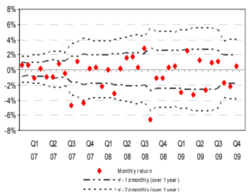
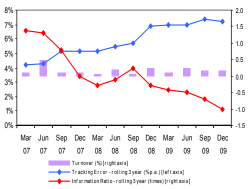
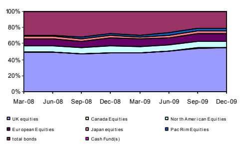
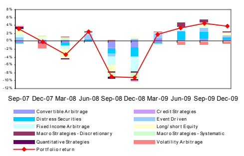
Appendix B – Glossary of Terms

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.

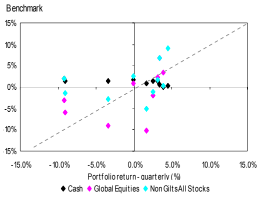
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and 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.

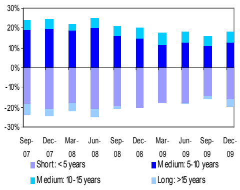
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year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



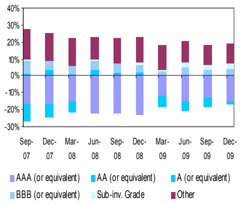
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



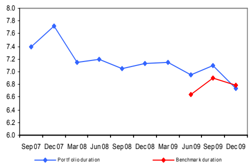
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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	-
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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