Avon Pension Fund

Review for period to 31 March 2013

May 2013

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1 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.
- This version of the report has been prepared for the Investment Panel, based on initial WM data. A full version of this report will be reported to the full Committee meeting once the final WM data has been received.

Fund Performance

- The value of the Fund's assets increased by £262m over the first quarter of 2013 to £3,135m.

Strategy

- Equity markets produced strong returns over the last quarter. Japan was the best performer at 19.2%, with emerging markets equities much lower at 5.4%. Over the last twelve months the US produced the best return at 20.1%. Japanese equity returns were reduced in Sterling terms by the weakening of the Yen but still produced comparable double-digit Sterling returns over 12 months (14.3%).
- The three year UK equity return has moved above the assumed strategic return, with overseas equities marginally below.
- Both nominal and index-linked bond returns have been high over the last three years and ahead of the assumed strategic return. This was a result of falling bond yields, and more recently falling real yields have boosted index-linked gilt returns.
- Overseas Fixed Interest and hedge funds remain below the assumed strategic return but there has been some improvement over the last quarter.
- The Property return has fallen behind the assumed strategic return, as the higher returns from 2010 fall out of the analysis and are replaced by lower recent returns. Since the start of 2012 income (rent) has been the main driver of returns rather than capital growth.

Managers

- In line with general market returns, all managers have produced positive returns over the last quarter, ranging from 0.8% from Schroders Property to 15.8% from SSgA Pacific. In relative terms, it has been a good quarter with all funds outperforming (apart from BlackRock Multi-Asset, which only underperformed by 0.1%).

  Only the four fund-of-hedge fund managers produced negative relative returns over three years.
- TT made changes in Q4 2011 and performance has continued to improve, with one year performance at 4% above the benchmark. TT’s three year performance has improved to 0.5% p.a. above their benchmark, but this is below their target of +3-4% p.a. above the benchmark.
- Man restructured the portfolio in Oct 2012 and the Panel met them in early 2013 to review the impact on performance. Performance has improved over Q1 2013 but this is a short time period over which to draw any firm conclusions.
- The SSgA Europe ex UK Enhanced Equity pooled fund has fallen in size such that Avon’s investment now represents over 90% of the pooled fund holdings. Avon’s share is at the same level as when the Panel last investigated the issue in 2011, albeit the fund value is higher than at that time. Avon’s share of the

Pacific fund is also around 90% (again a similar share but a slightly higher fund value then when previously investigated).

- Stenham has recently changed the focus of its business strategy, focussing away from growing its institutional business to focus on servicing existing investors, strategic acquisitions and joint venture projects. The Stenham portfolio produced a strong quarterly return which has improved its longer term returns.

Key points for consideration

- The results of the Fund’s recent strategic review should be taken into account before making any manager or asset allocation changes.
- Performance of the SSgA Europe ex UK Enhanced Equity Fund does not appear to have been affected by its reduction in size.
- Stenham’s portfolio should be monitored closely to ensure that their revised positive outlook and returning confidence in fundamentals as a driver of returns continues to perform and does not significantly alter their philosophy or risk profile.
- The performance of Man has been steady since the reorganisation of the portfolio but there has not yet been signs that it will be able to outperform the other fund of hedge fund portfolios, despite its higher outperformance target.

2 Market Background

The figures below cover the three months and 1 and 3 years to the end of March 2013.

Market Statistics

Yields as at 31 March 2013	% p.a.
UK Equities	3.35
UK Gilts (>15 yrs)	3.02
Real Yield (>5 yrs ILG)	-0.43
Corporate Bonds (>15 yrs AA)	4.06
Non-Gilts (>15 yrs)	4.06

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.22	-0.10	0.19
UK Gilts (>15 yrs)	0.02	-0.24	-1.44
Index-Linked Gilts (>5 yrs)	-0.36	-0.32	-1.07
Corporate Bonds (>15 yrs AA)	-0.02	-0.57	-1.44
Non-Gilts (>15 yrs)	0.01	-0.65	-1.33

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	0.5	8.1	12.3
Index-Linked Gilts (>5 yrs)	9.0	11.7	13.0
Corporate Bonds (>15 yrs AA)	1.3	11.7	10.4
Non-Gilts (>15 yrs)	1.0	13.7	10.6

* Subject to 1 month lag

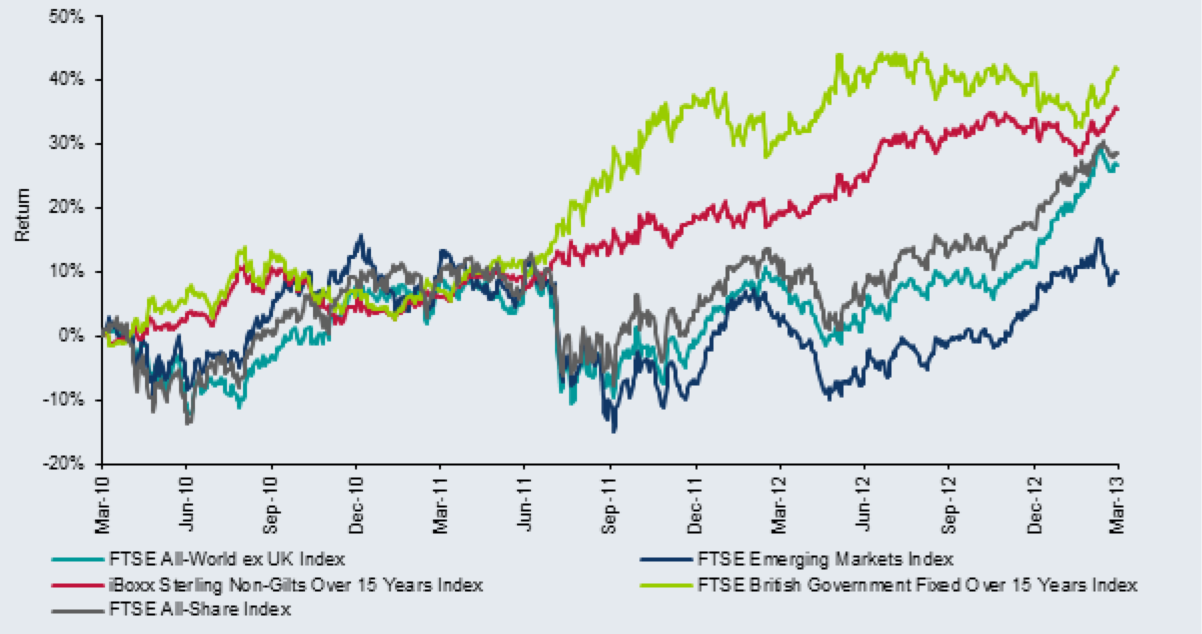
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	10.3	16.8	8.8
Overseas Equities	14.4	17.2	8.2
USA	18.5	20.1	12.6
Europe	9.7	17.1	3.8
Japan	19.3	14.3	3.5
Asia Pacific (ex Japan)	8.8	16.7	7.3
Emerging Markets	5.4	7.4	3.2
Property	1.1	2.5	6.6
Hedge Funds	3.6	7.5	5.8
Commodities	7.6	0.0	3.0
High Yield	9.1	19.1	10.7
Emerging Market Debt	-2.3	10.1	9.9
Senior Secured Loans	2.8	8.7	5.7
Cash	0.1	0.5	0.5

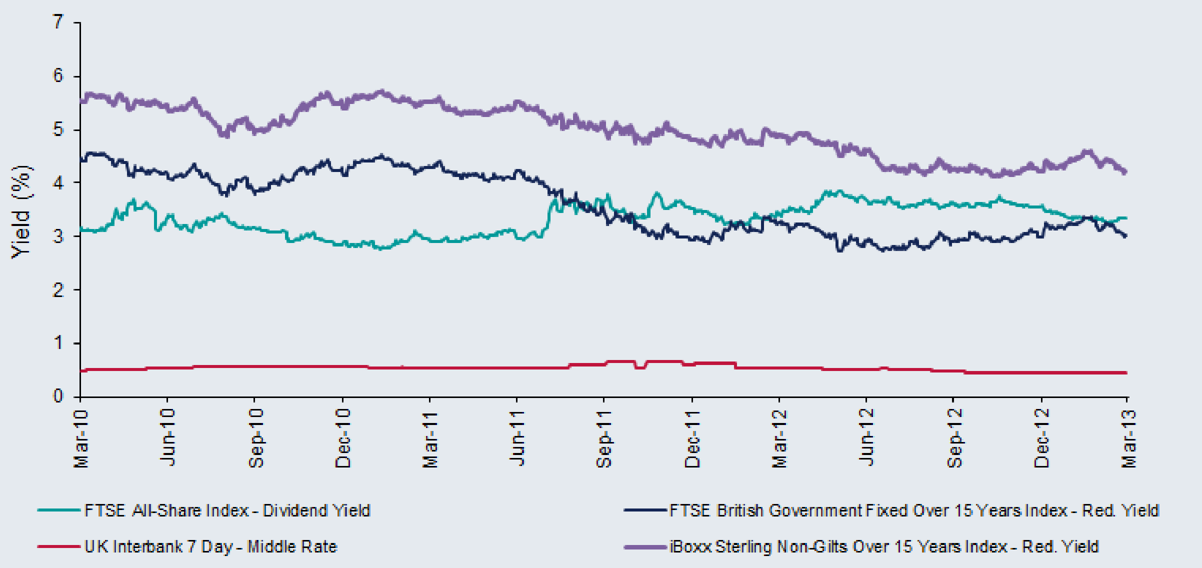
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-6.6	-5.0	0.0
Against Euro	-4.1	-1.4	1.8
Against Yen	1.6	8.6	0.2

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation - RPI	0.8	3.2	4.1
Price Inflation - CPI	0.7	2.8	3.5
Earnings Inflation *	-0.5	0.6	1.5

Market Summary charts



The graph above shows market returns for the last three years; both the medium-term trend and the short-term volatility.



The graph above shows the historic yields for gilts, corporate bonds, UK equities and UK cash over the last three years. The trend over the last 2 years shows falling gilt and corporate bond yields, whilst the yield on the FTSE All-Share Index has risen.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 March 2013, 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	8.8	Both around the assumed strategic return following a return of around 17% over the last twelve months. This followed flat returns of the previous 12 months.
Global Equities	8.4	8.2	
UK Gilts	4.7	12.3	Significantly ahead of the assumed strategic return as gilt yields fell significantly during 2011. Over the last twelve months, nominal gilt yields have stabilised whereas real yields and corporate bond yields have fallen, giving strong returns.
Index Linked Gilts	5.1	13.0	
UK Corporate Bonds	5.6	8.6	
Overseas Fixed Interest	5.6	4.3	Behind the assumed strategic return, affected by rising yields within European bonds, however there has been some improvement over the most recent quarter.
Fund of Hedge Funds	6.6	2.2	Behind the assumed strategic return following a negative return in 2011. More recent returns have been steady, albeit low. Low LIBOR levels could lead to continued low performance.
Property	7.4	6.6	This has fallen behind the assumed strategic return, as the higher returns from 2010 fall out of the analysis and are replaced by lower recent returns.

Source: Statement of Investment Principles, Thomson Reuters.

See appendix A for economic data and commentary.

3 Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 March 2013, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 March 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	640,484	20.4	18.0
Overseas Equities	1,384,317	44.1	42.0
Bonds	611,590	19.5	20.0
Fund of Hedge Funds	221,147	7.1	10.0
Cash (including currency instruments)	55,550	1.8	-
Property	222,341	7.1	10.0
TOTAL FUND VALUE	**3,135,429**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £262m over the first quarter of 2013 to £3,135m. Each asset class contributed positively to the increase, however most of the increase (£233m) came from equities.
- In terms of the asset allocation, market movements resulted in a shift towards equities as they produced double-digit returns and outperformed other asset classes. This moved the allocation slightly further away from the strategic benchmark weights.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 December 2012 Value £'000	31 December 2012 Proportion of Total %	Net new money £'000	31 March 2013 Value £'000	31 March 2013 Proportion of Total %
Jupiter	UK Equities	124,793	4.3	-	139,815	4.5
TT International	UK Equities	144,716	5.0	-	162,741	5.2
Invesco	Global ex-UK Equities	186,292	6.5	-	218,121	7.0
Schroder	Global Equities	174,947	6.1	-	199,613	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	90,327	3.1	-	103,009	3.3
Genesis	Emerging Market Equities	147,442	5.1	-	158,436	5.1
MAN	Fund of Hedge Funds	62,264	2.2	-	63,955	2.0
Signet	Fund of Hedge Funds	66,339	2.3	-	67,197	2.1
Stenham	Fund of Hedge Funds	33,360	1.2	-	34,937	1.1
Gottex	Fund of Hedge Funds	53,559	1.9	-	55,059	1.8
BlackRock	Passive Multi-asset	1,305,849	45.4	-	1,446,466	46.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	60,381	2.1	-2,710	60,652	1.9
RLAM	Bonds	172,159	6.0	-	176,526	5.6
Schroder	UK Property	131,330	4.6	-	132,500	4.2
Partners	Property	87,078	3.0	2,710	95,729	3.1
Record Currency Mgmt	Dynamic Currency Hedging	8,249	0.3	-	-3,117	-0.1
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	8,924	0.3	-	7,955	0.3
Internal Cash	Cash	15,242	0.5	-	15,836	0.5
Rounding		-1	0.1	-	-1	-0.1
TOTAL		**2,873,250**	**100.0**	**0**	**3,135,429**	**100.0**

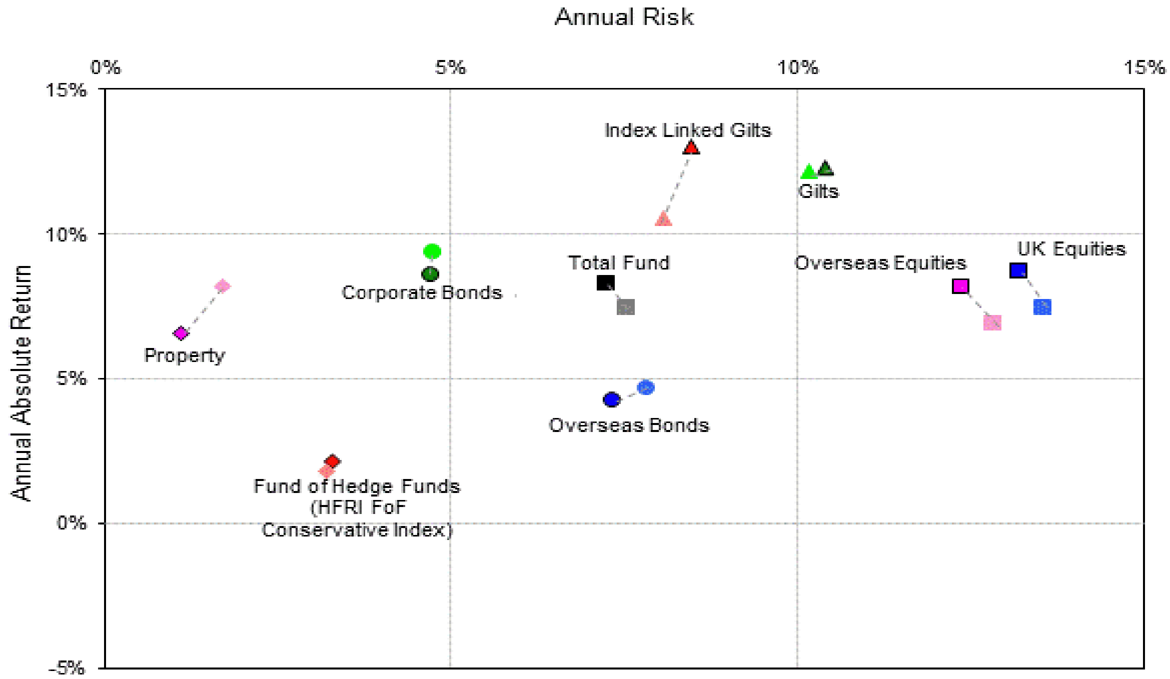
Source: Avon Pension Fund Data provided by WM Performance Services

4 Performance Summary

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 March 2013 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 13.

3 Year Risk v 3 Year Return to 31 March 2013



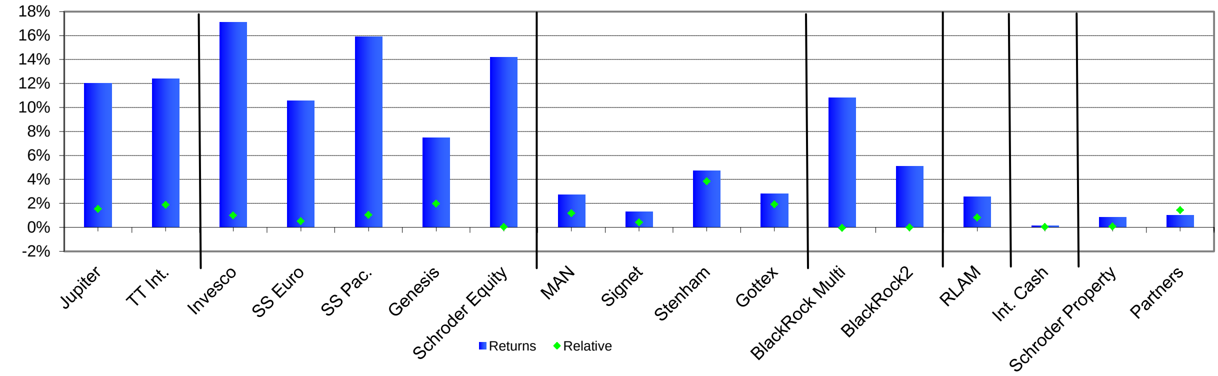
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- 3-year equity returns increased despite the strong returns of Q1 2009 falling out of the analysis, as equities produced double-digit returns in Q1 2013.
- The Property return continued to fall sharply as the lower returns seen over the last year continue.
- Hedge funds continue to produce a steady, albeit low, return, with the three year figures affected by the negative return of 2011.
- Index-linked gilts continued to rise, whereas conventional gilts were flat over the last quarter.
- In terms of risk, there was broadly little change with the exception of property. The volatility of equities continued to fall.
- Both the UK and overseas equity three-year returns rose, with the UK return now above its assumed strategic return of 8.4% p.a. and the overseas return only slightly behind. The three year return on each of the bond types (gilts, index linked gilts and corporate bonds) remains above the respective strategic returns. Property has fallen to below its assumed strategic return; overseas fixed interest and hedge funds remain below their assumed strategic return.

Aggregate manager performance

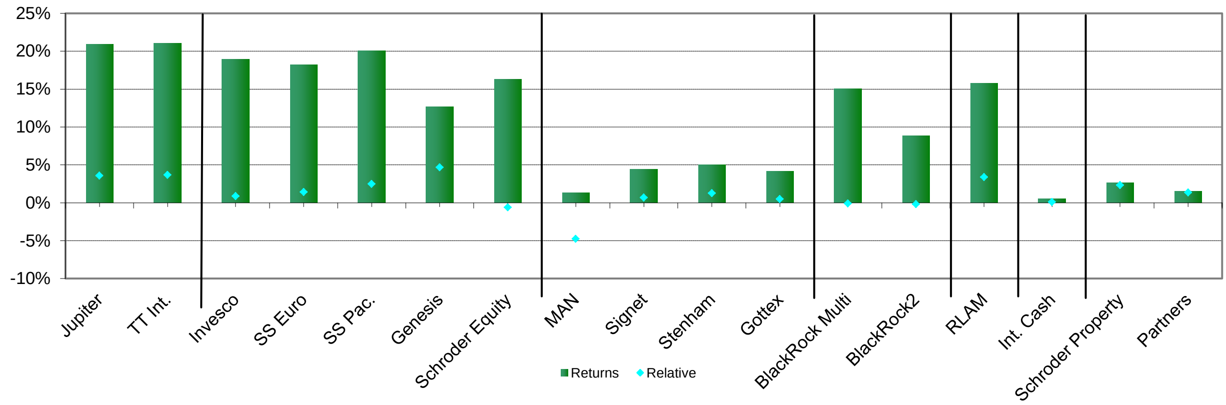
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of March 2013. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - **Quarter to 31 March 2013**

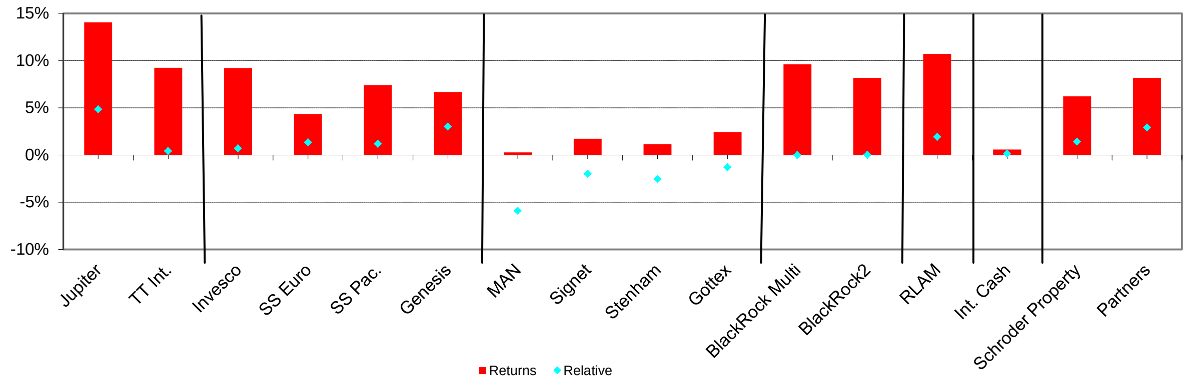


Partners data is lagged by 1 quarter.

Absolute and relative performance - **Year to 31 March 2013**



Absolute and relative performance - **3 years to 31 March 2013**



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 March 2013. 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.

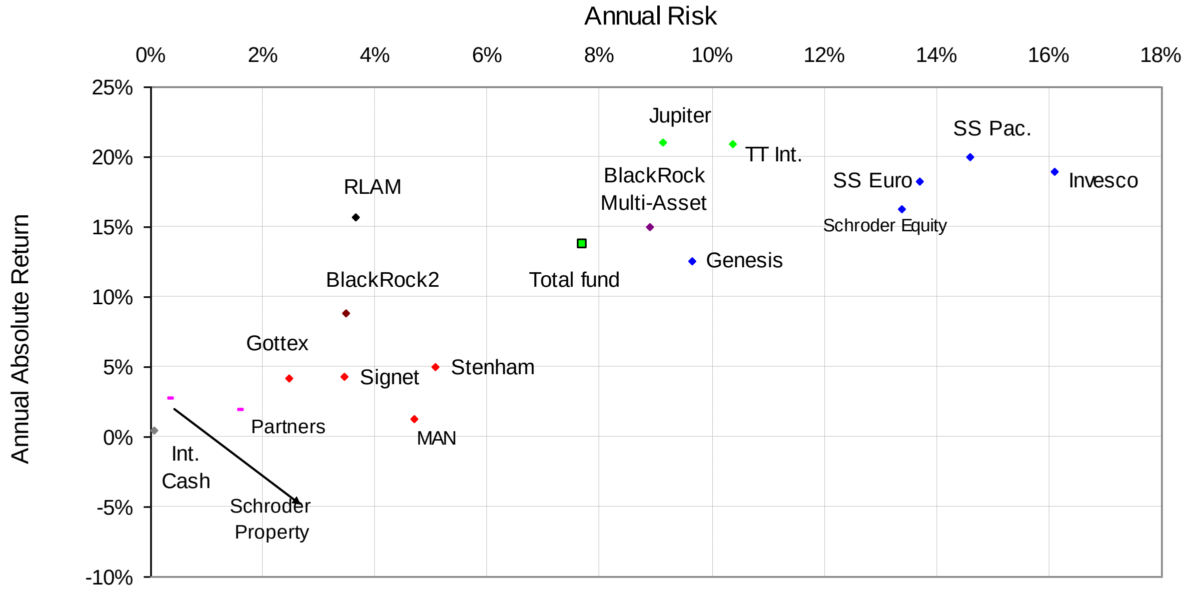
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+1.7	+4.1	+5.2	Target met
TT International	+2.1	+4.3	+0.4	Target not met
Invesco	+1.2	+1.1	+0.7	Target met
SSgA Europe	+0.5	+1.6	+1.3	Target met
SSgA Pacific	+1.2	+3.0	+1.2	Target met
Genesis	+2.1	+5.1	+3.1	Target met
Schroder Equity	+0.1	-0.7	N/A	N/A
Man	+1.2	-5.0	-6.2	Target not met
Signet	+0.4	+0.7	-2.1	Target not met
Stenham	+3.8	+1.3	-2.7	Target not met
Gottex	+1.9	+0.5	-1.4	Target not met
BlackRock Multi - Asset	-0.1	-0.1	0.0	Target met
BlackRock 2	0.0	-0.2	0.0	Target met
RLAM	+0.8	+3.8	+2.1	Target met
Internal Cash	0.0	+0.1	+0.2	N/A
Schroder Property	0.0	+2.4	+1.5	Target met
Partners Property	+1.4	+1.4	+3.1	Target met

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

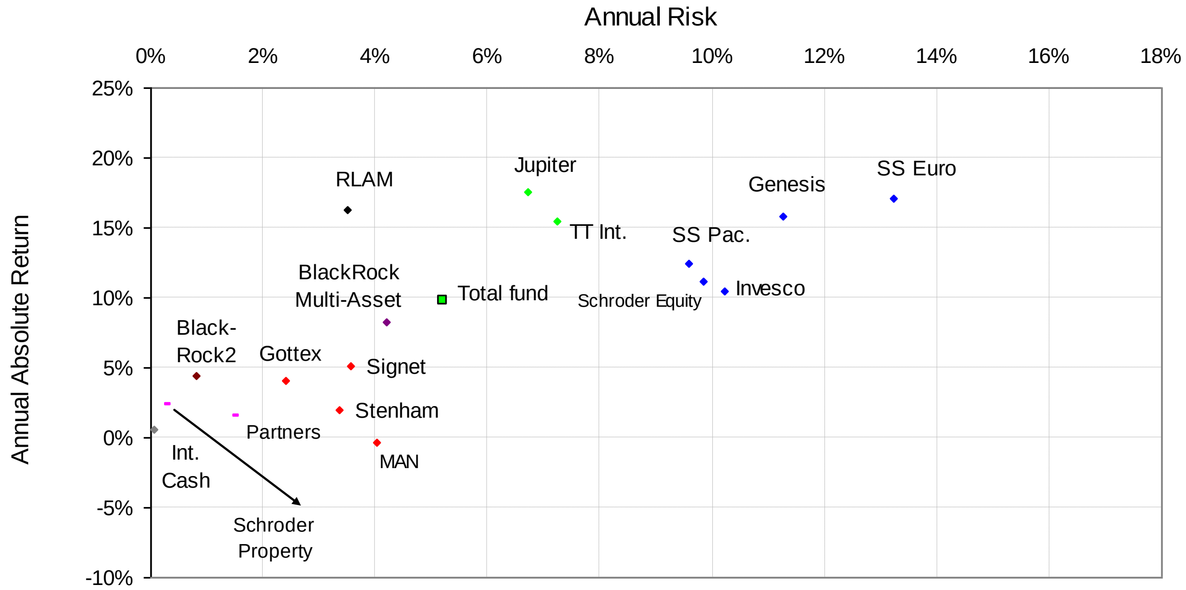
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2013 of each of the funds. We also show the same chart, but with data to 31 December 2012 for comparison.

1 Year Risk v 1 Year Return to 31 March 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 December 2012



Source: Data provided by WM Performance Services

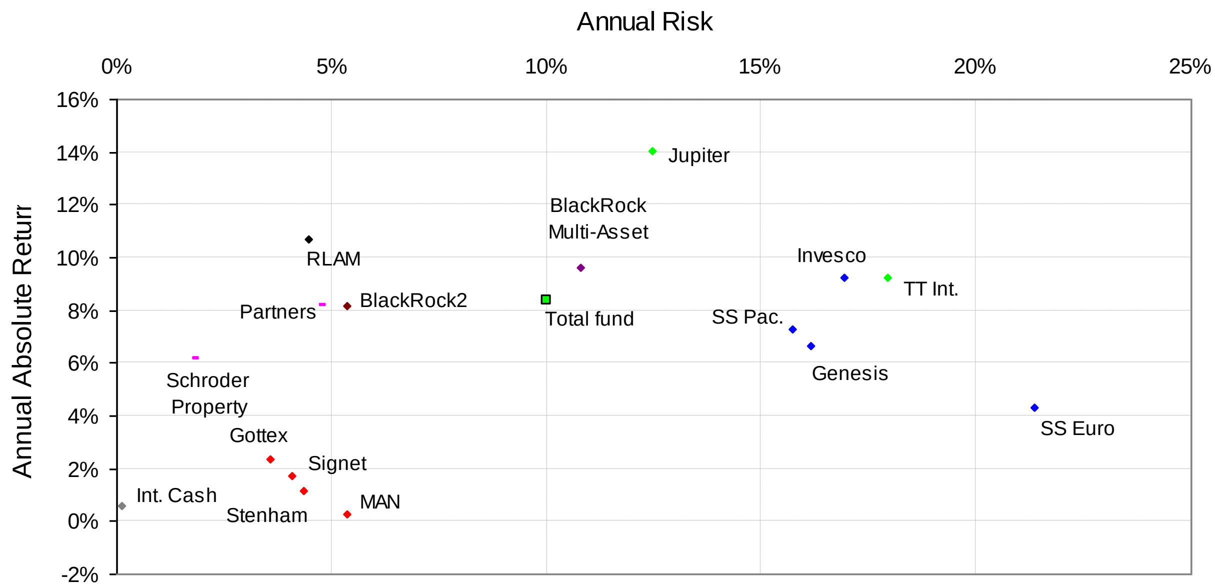
- The managers are colour coded by asset class, as follows:

  - 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 one-year returns are higher to March than to December for all funds apart from Genesis, Signet and RLAM.
- Notable increases are Invesco global equities (from 10.4% to 19.0%) and Stenham (from 2.0% to 5.0%), which puts Stenham’s return ahead of Signet and Gottex.
- Genesis emerging market equity fund return over one-year has fallen from 15.8% to 12.6%.
- The one-year risk has generally increased for the equity-based funds and the Blackrock funds, and remained broadly unchanged elsewhere.

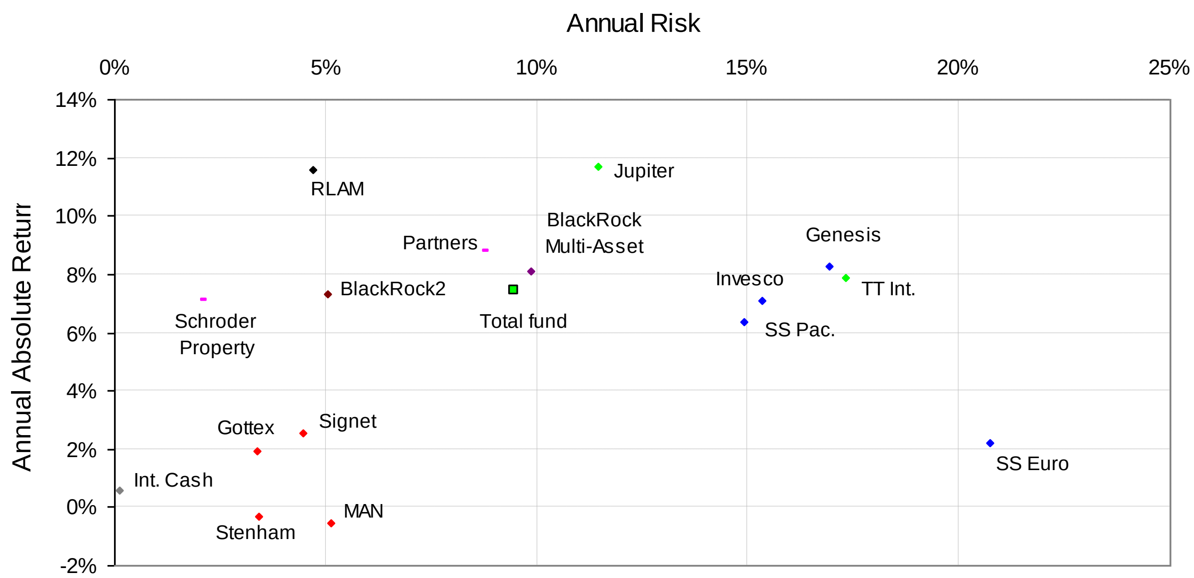
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2013 of each of the funds. We also show the same chart, but with data to 31 December 2012 for comparison.

3 Year Risk v 3 Year Return to 31 March 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 December 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 change in the three-year returns compared to last quarter reflect those of the one-year returns, with a notable improvement from most equity-based funds but a fall from Genesis, Signet and RLAM.
- The 3-year risk figures have generally increased for the equity-based funds and remained at a broadly consistent level for the other funds. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest, in line with the market returns chart on page 8.

Conclusion

- The strongest returns over the 1 year period are from equity funds, corporate bonds (RLAM) and Blackrock Multi-asset. Each of these produced a double-digit return.
- Over three years, the best performer is Jupiter at 14.1% p.a., followed by RLAM at 10.7% p.a. The other equity, property and multi-asset funds generally produced 4-9% p.a., with the hedge funds lowest at 0-3% p.a.
- The Fund of Hedge Fund managers have provided low volatility over both the 1 and 3 year period. However, over the longer 3 year period they have all underperformed their assumed strategic return. Each of the equity-based funds has outperformed the assumed strategic return over 3 years.

5 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 sustainability of the SSgA Europe ex UK Enhanced Equity Fund was assessed previously following a large fall in its size. The conclusion was that the Fund could be sustained even if the Avon Pension Fund was the only investor. Following a further large redemption, there does not appear to have been any impact on performance. Both SSgA funds are slightly larger than when the issue was investigated in November 2011 and Avon's share remains at similar levels.
- The performance of Stenham and any changes to the team should be monitored closely following the announcement of their change in business strategy. Q1 2013 was a particularly strong return for Stenham, they should be monitored to ensure that their revised positive outlook and returning confidence in fundamentals as a driver of returns continues to perform and does not significantly alter their philosophy or risk profile.

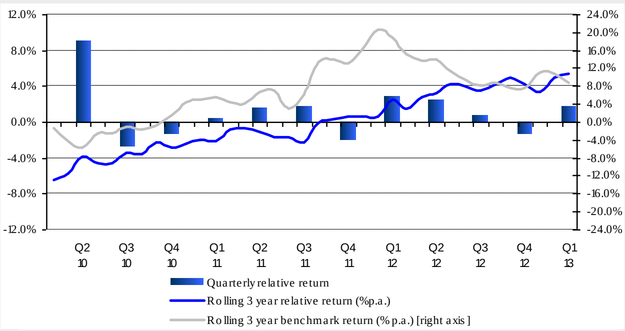
5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

Mandate	Benchmark	Outperformance Target	Inception Date
UK equities (Socially Responsible Investing)	FTSE All Share	+2%	April 2001

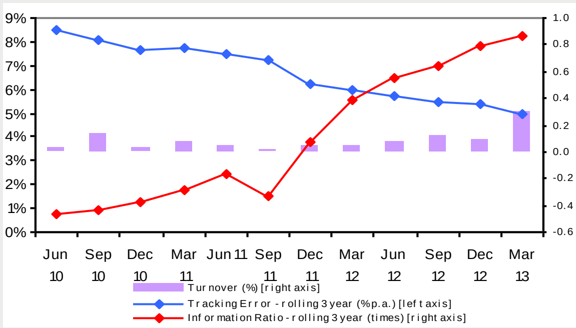
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear and robust approach to evaluating SRI factors within the investment process ■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities ■ Corporate commitment to SRI investment approach within a more mainstream investment team

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£139,815	4.5	5.0%	58

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	12.0	20.9	14.0
Benchmark	10.3	16.8	8.8
Relative	+1.7	+4.1	+5.2

Source: Data provided by WM Performance Services, and Jupiter.

Comments:

- Jupiter are outperforming their 3 year performance target.
- The Fund's allocation to Cash (6.5%) has not changed since the last quarter and remains below the 7% limit.
- The industry allocation has continued to remain considerably different to the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q1 2013, Jupiter was significantly underweight in Oil and Gas, Consumer Services, Basic Materials and Financials, with significant overweight positions in Consumer Goods, Industrials, Utilities, Telecommunications and Technology.
- The improvement in the information ratio is evidence of more consistent relative returns over 2011 and 2012 as the poorer returns from 2008 and 2009 fall out of the rolling 3-year figures. In addition, the fall in the tracking error has contributed to the information ratio improvement.

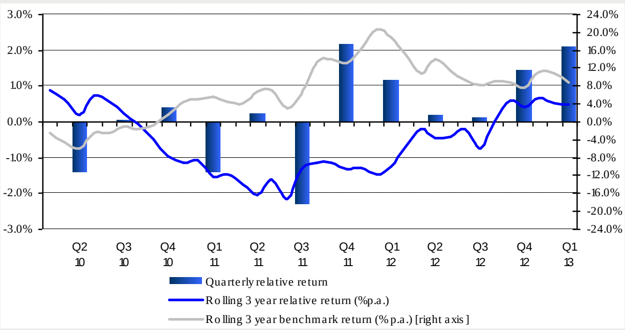
5.2 TT International – UK Equities (Unconstrained)

Mandate	Benchmark	Outperformance Target	Inception Date
UK equities (unconstrained)	FTSE All Share	+3-4%	July 2007

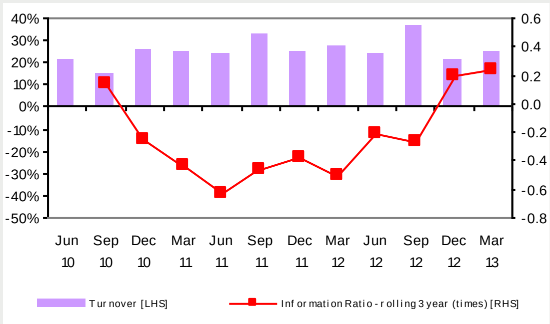
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Favoured the partnership structure that aligns managers and Fund's interests. ■ Focussed investment activity and manages its capacity ■ Clear, robust stock selection and portfolio construction process

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£162,741	5.2	2.6%	59

Relative returns #1



Information ratio and Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	12.4	21.1	9.2
Benchmark	10.3	16.8	8.8
Relative	+2.1	+4.3	+0.4

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

Comments:

- The three-year measure has continued to improve, with both short and longer-term performance now above the benchmark.
- The Fund held an overweight position in Consumer Services by 6.3% and was underweight Oil & Gas and Financials, by 4.5% and 2.8% respectively, at the end of the quarter.
- Turnover, over the first quarter, increased to 24.6% compared to the last quarter's number of 20.9%. This is a higher turnover than Jupiter but is in line with expectations for TT's approach.
- The 3 year tracking error (proxy for risk relative to the benchmark) has remained broadly consistent over the last few quarters, to stand at 2.56%. However, there has been a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio increased by 0.05 to 0.24 demonstrating an improvement in risk adjusted return.
- TT made changes to the team and process in Q4 2011. The Panel met TT in 2012 and were satisfied that performance had improved considerably since the changes were made.

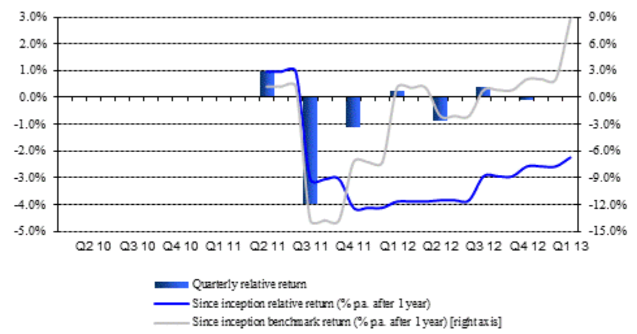
5.3 Schroder – Global Equity Portfolio (Unconstrained)

Mandate	Benchmark	Outperformance Target	Inception Date
Global Equities (Unconstrained)	MSCI AC World Index Free	+4%	April 2011

Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear philosophy and approach ■ Long term investment philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process ■ Evidence of ability to achieve the Fund's performance target

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£199,613	6.4	2.3%	N/A

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	14.2	16.3	N/A
Benchmark	14.1	17.0	N/A
Relative	+0.1	-0.7	N/A

Source: Data provided by WM Performance Services, and Schroders.

Comments:

- The return over the last quarter was just above benchmark over 3 months, but it underperformed over the year.
- Schroder continue to pursue companies which should benefit 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 industries (those stocks that are sensitive to movements in the economic cycle such as Financials).
- Equity markets rose sharply over the quarter across all sectors, with cyclical stocks performing well at the start of the quarter and defensive stocks better towards the end. Reflecting this rotation during the quarter, sectors within the benchmark that outperformed were mixed across defensives and cyclicals.
- The portfolio has a moderate cyclical bias and so potential outperformance was capped towards the end of the quarter.
- From a regional perspective, stock selection in emerging markets was strong, with North America being the largest detractor due to exposure to the energy sector.
- Schroder's approach to stock selection is not constrained by the benchmark. They focus on stock specific situations where they feel there is sustainable growth and valuation upside.
- This has resulted in Schroder remaining overweight in industrials and continental Europe, and underweight in telecoms and North America. They remain positive on global equities for 2013.

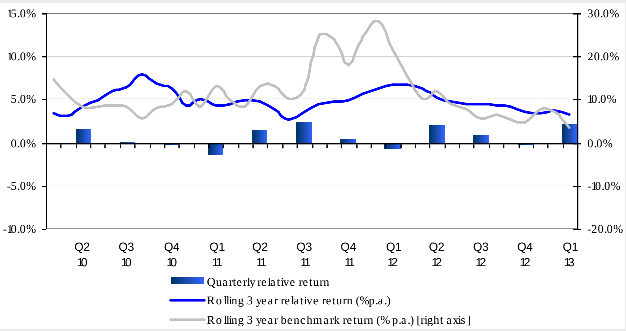
5.4 Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance Target	Inception Date
Emerging Market equities	MSCI EM IMI TR	-	December 2006

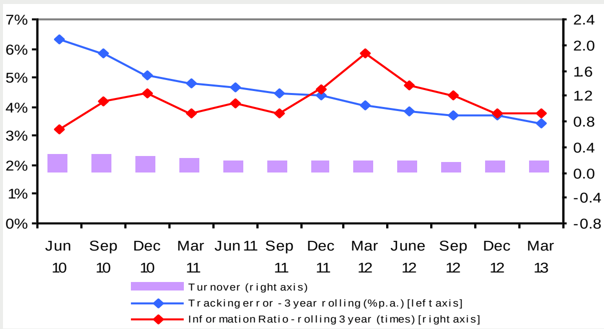
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Long term investment approach which takes advantage of evolving growth opportunities ■ Niche and focussed expertise in emerging markets ■ Partnership structure aligned to delivering performance rather than growing assets under management

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£158,436	5.1	3.4%	164

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	7.5	12.7	6.7
Benchmark	5.4	7.6	3.6
relative	+2.1	+5.1	+3.1

Source: Data provided by WM Performance Services, and Genesis.

Comments:

- Genesis have achieved significant outperformance of the benchmark over 3 years.
- The Fund is overweight to India and South Africa, while underweight to China, Brazil and South Korea, although 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 relative to the benchmark) decreased to 3.4% in Q1 2013. After remaining stable in the previous quarter, the tracking error has again fallen in this quarter. The 3 year information ratio (risk adjusted return), continued to remain the same at 0.9.
- 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 (+7.2%), Health Care (+2.9%), Materials (+1.7%) and Information Technology (1.9%). The Fund is underweight to Consumer Discretionary (-5.0%), Energy (-4.8%), Telecom Services (-2.2%), Industrials (-2.1%) and Utilities (-1.7%). These are broadly similar positions to last quarter.

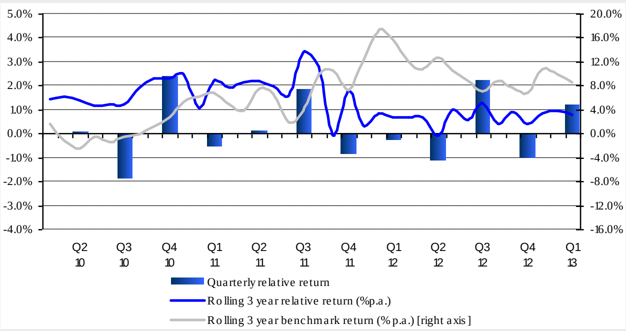
5.5 Invesco – Global ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance Target	Inception Date
Global ex-UK equities enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%	December 2006

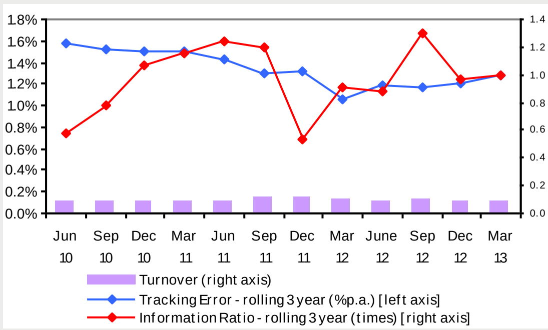
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis ■ One of few to Offer a Global ex UK pooled fund

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£218,121	7.0	1.3%	365

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	17.1	19.0	9.2
Benchmark	15.9	17.9	8.5
relative	+1.2	+1.1	+0.7

Source: Data provided by WM Performance Services, and Invesco.

Comments:

- Over the last quarter, stock selection was the main driver of the outperformance.
- The absolute volatility has increased to 10.7% at the end of the first quarter of 2013 compared to 7.7% at the end of the fourth quarter of 2012 reflecting the increase in market volatility over the period.
- The turnover for this quarter of 9.0% increased from 8.5% in the previous quarter. The number of stocks (365) was the same as the previous quarter and remains an appropriate number for the enhanced indexation approach.
- The industry allocation is relatively in line with the benchmark industry allocations. Apart from Consumer Discretionary (-1.2%) and Health Care (+1.2%), all industry allocations were broadly within +/- 1.1% of benchmark weightings as expected from this mandate.
- Invesco's 3 year performance has moved further above the benchmark and is now above their outperformance target.

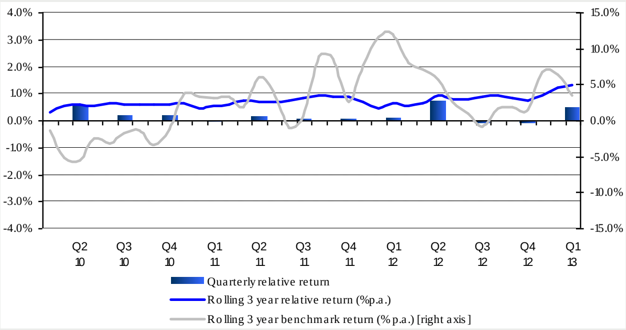
5.6 SSgA – Europe ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance Target	Inception Date
Europe ex-UK equities (enhanced indexation)	FTSE AW Europe ex UK	+0.5%	December 2006

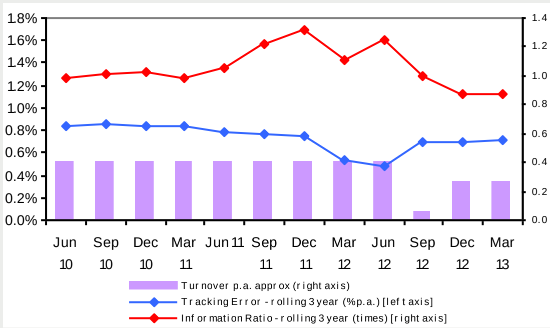
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£34,448	0.9	0.7%	230

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	10.5	18.2	4.3
Benchmark	10.0	16.6	3.0
relative	+0.5	+1.6	+1.3

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 all three countries.
- As previously reported, the pooled fund has fallen in size – the total assets of £306.12m on 31 March 2011 had fallen to £46.85million (30/6/2011); up to £113.53m (30/9/2012) and back down £36.24m (31/12/2012). On 31/3/2013, the fund size has increased to £39.78m, however this will be principally due to market movements during the first quarter. Avon's share of the pooled fund is at 90%, the same level as when the Panel last investigated the issue, albeit the total Fund is a little larger than at that time.
- The conclusion at that time was that the Fund could be sustained even if the Avon Pension Fund was the only investor. Performance of the SSgA Europe ex UK Enhanced Equity Fund does not appear to have been affected by its reduction in size.
- Turnover has increased from 26.3% to 26.7%, closer to that previously seen. The tracking error has almost remained in line with the previous quarter.
- The information ratio has remained same as compared to the previous quarter.

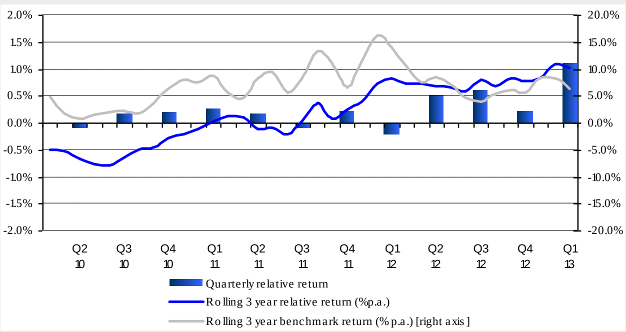
5.7 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance Target	Inception Date
Pacific inc. Japan equities	FTSE AW Dev Asia Pacific	+0.5%	December 2006

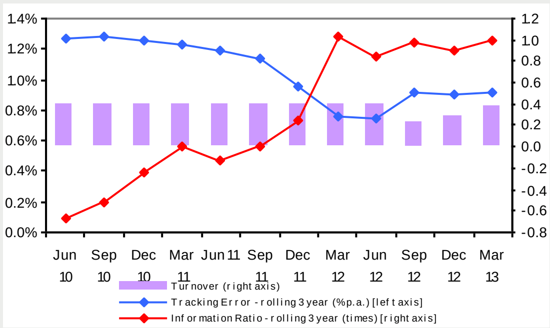
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£68,560	2.2	0.9%	427

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	15.9	20.1	7.4
Benchmark	14.7	17.1	6.2
relative	+1.2	+3.0	+1.2

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 over half of the fund (52.7%) is invested in Japan.
- Turnover has further increased to 37.8% after an increase in the previous quarter as well.
- The information ratio (+0.99) has increased compared to the previous quarter (+0.90).
- The tracking error of the fund has remained the same as it was last quarter.
- The pooled fund size is £75.52m of which Avon hold £68.56m. This is a similar share of the pooled fund as when the issue was last addressed, but the fund is at a slightly higher value. Again, the conclusion was that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The significant outperformance this quarter is high for this type of mandate. This was the first quarter where the SSgA's quantitative model for this Fund incorporated new quality, short interest and solvency and operating efficiency (SOE) factors in their analysis.

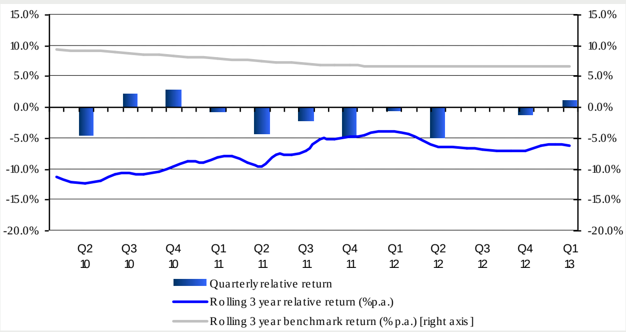
5.8 MAN – Fund of Hedge Funds

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

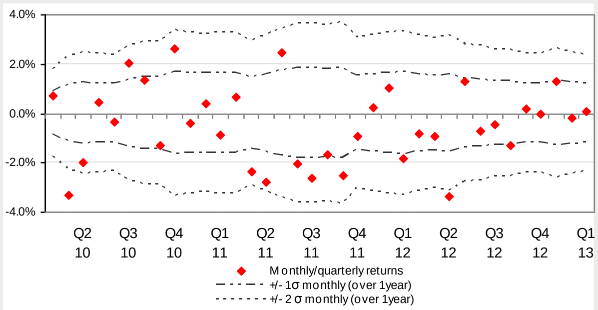
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Institutional infrastructure and resources (not common within hedge funds at time of appointment) ■ Resources to provide multi-strategy investment approach ■ Higher return and volatility target to complement lower return target of other funds within the hedge fund portfolio

Value (£'000)	% Fund Assets	Number of Funds Over Quarter
£63,955	2.0	45

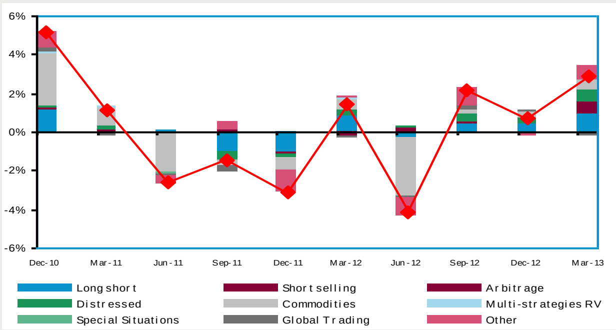
Relative returns [#1]



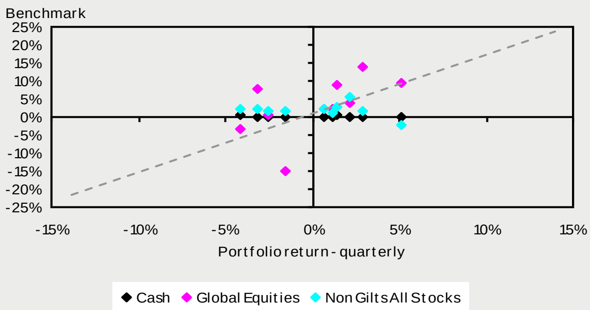
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.7	1.4	0.3
Benchmark	1.5	6.4	6.5
relative	+1.2	-5.0	-6.2

Source: Data provided by WM Performance Services, and MAN.

Comments:

- Their 3 year absolute performance has become positive, and now stands at 0.3% p.a.
- MAN has a higher outperformance target than the other fund of hedge fund managers but are not outperforming Avon's other hedge fund managers and this is reflected in Man's weaker long-term relative performance.
- MAN have restructured the portfolio, increasing concentration and more dynamic allocations. The restructure completed in Oct 2012 and so the impact on performance has yet to be determined. The Panel met MAN in early 2013 to review how effective the restructure has been in achieving improved performance. MAN confirmed that the number of managers in the portfolio at any one time has been reduced to 26 and will remain within the 25-35 range.

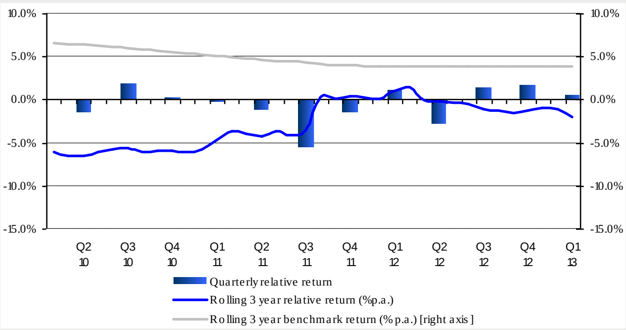
5.9 Signet – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	4.8%	August 2007

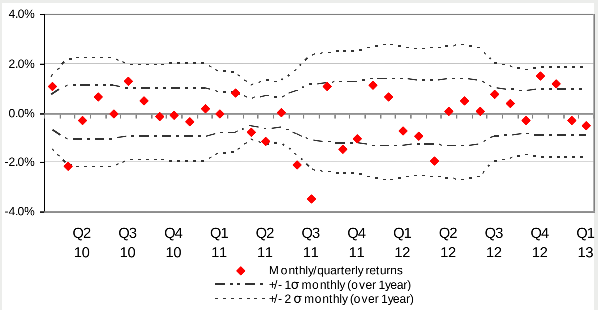
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche fixed income strategy focus ■ Established team with strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£67,197	2.1	37

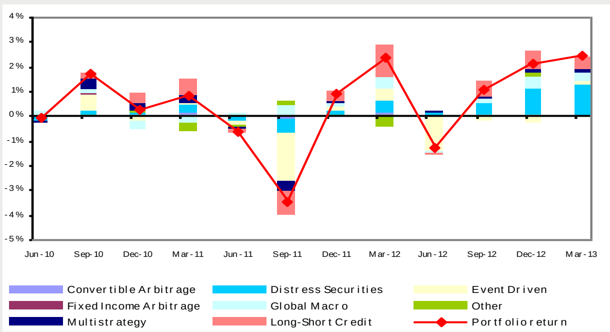
Relative returns #1



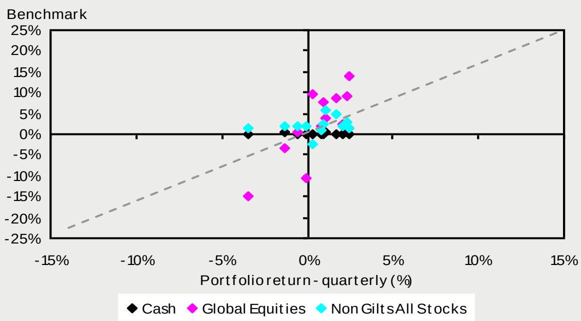
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.3	4.4	1.7
Benchmark	0.9	3.7	3.8
relative	+0.4	+0.7	-2.1

Source: Data provided by WM Performance Services, and Signet.

Comments:

- Most strategies contributed to the positive absolute returns.
- Signet are outperforming their performance target over 1 year but remain behind over 3 years.
- There is little correlation between this Fund and cash or non gilt bonds, but a weak correlation with global equities. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

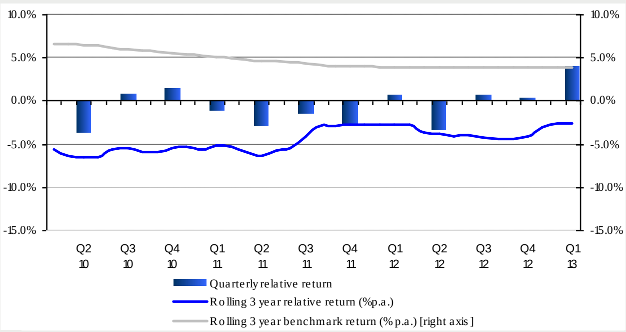
5.10 Stenham – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.5%	August 2007

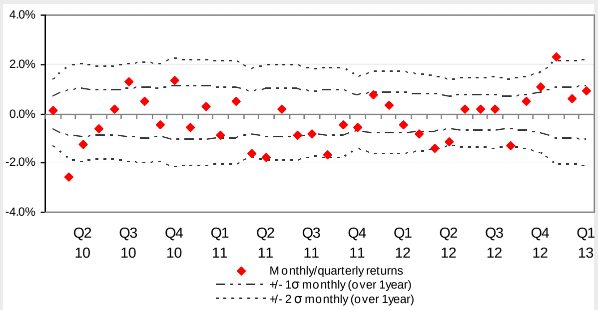
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies ■ Established team, strong track record at selecting managers ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds over the Period
£34,937	1.1	33

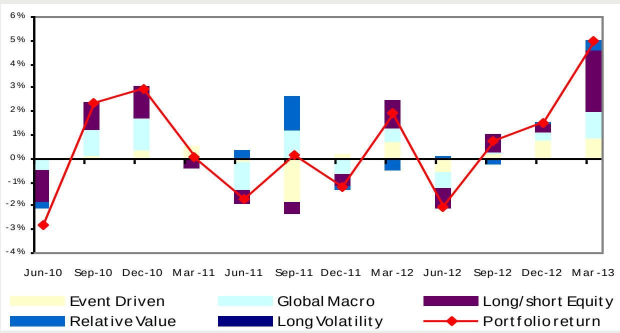
Relative returns #1



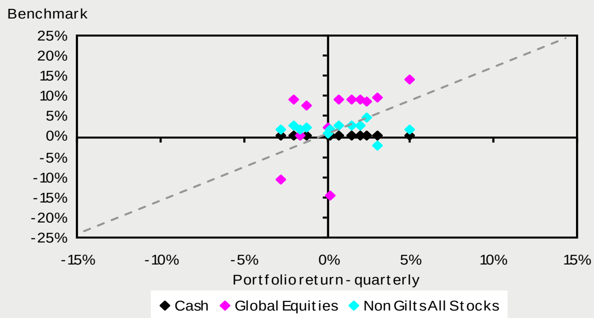
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.7	5.0	1.1
Benchmark	0.9	3.7	3.8
Relative	+3.8	+1.3	-2.7

Source: Data provided by WM Performance Services, and Stenham.

Comments:

- Stenham has recently changed the focus of its business strategy, focussing away from growing its institutional business to focus on existing investors and strategic acquisition and joint venture projects.
- Strong performance since Stenham have adopted a more positive outlook and returning confidence in fundamentals as a driver of returns. Stenham are outperforming their target over 1 year but still behind over 3 year measure. Should continue to monitor to ensure the changes do not significantly alter their philosophy or risk profile.
- The positive contribution to performance came from Event Driven (0.9%), Long/short Equity (2.7%), Global Macro (1.1%) and Relative Value (0.4%) strategies. Long Volatility was neutral.
- The allocation to the Global Macro and Long / Short Equity strategies made up 69.0% of the total Fund allocation. The allocation to Cash remained same over the quarter.
- Stenham have reduced the number of funds in the portfolio to 18.
- 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.

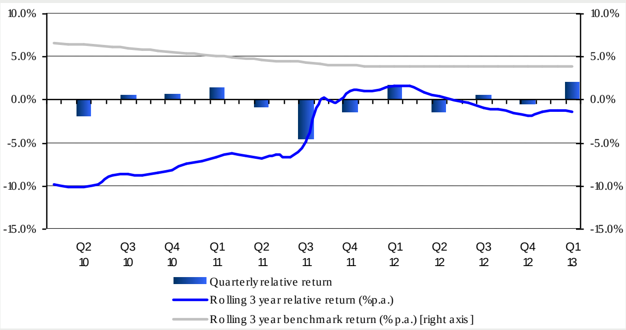
5.11 Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	2.7%	August 2007

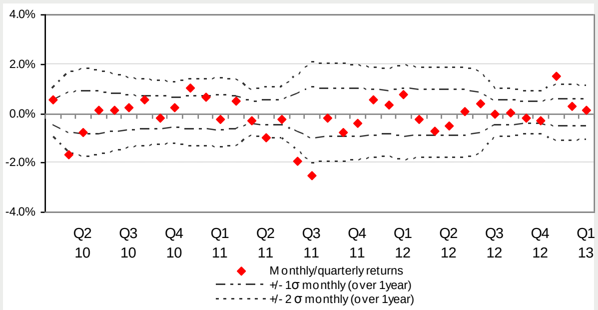
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche market neutral investment strategy ■ Established team, strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£55,059	1.8	Not available

Relative returns [#1]

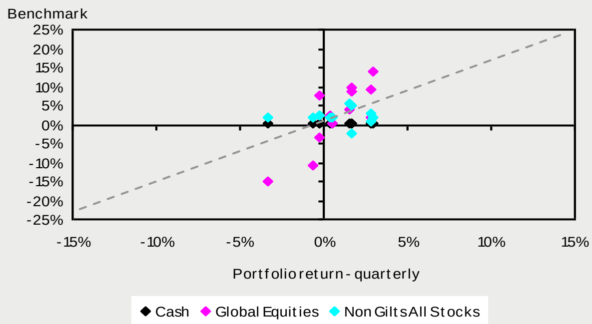


Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]

Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.8	4.2	2.4
Benchmark	0.9	3.7	3.8
relative	+1.9	+0.5	-1.4

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 previous quarter.
- Gottex have outperformed their target over 12 months but remain behind over 3 years.
- There is no clear correlation between this Fund and cash or non-gilt bonds, and a weak correlation with global equities. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

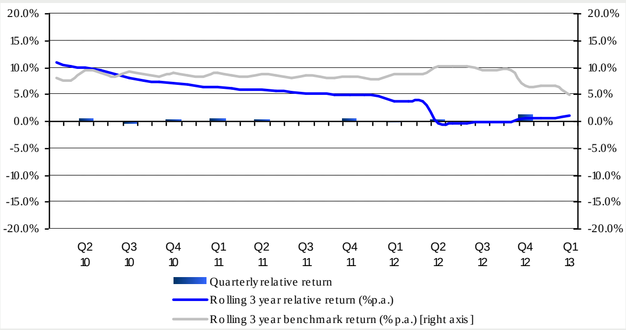
5.12 Schroder – UK Property

Mandate	Benchmark	Outperformance Target	Inception Date
UK property	IPD UK pooled	+1.0%	February 2009

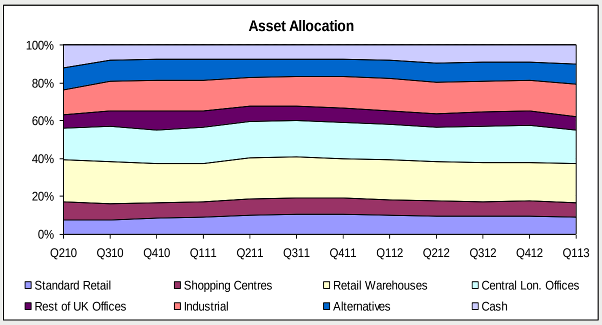
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Demonstrable track record of delivering consistent, above average performance. ■ Team though small is exclusively dedicated to UK multi-manager property management but can draw on the extensive resources of the Schroders direct property team. ■ Well structured and research orientated investment process.

Value (£'000)	% Fund Assets	Tracking Error	Number of Funds
£132,500	4.2	Not available	N/A

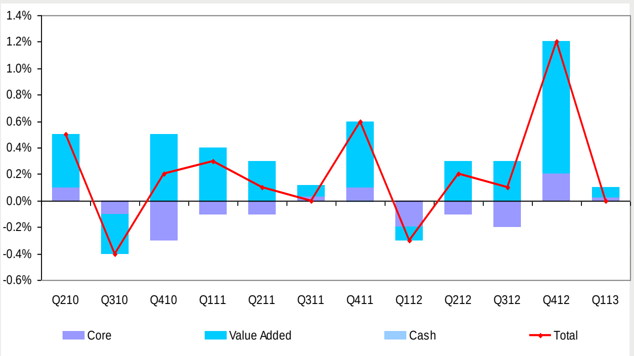
Relative returns #1



Asset Allocation #5



Contribution to relative return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.8	2.7	6.2
Benchmark	0.8	0.3	4.7
relative	0.0	+2.4	+1.5

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.
- Over the quarter, performance was in line with the benchmark. Both core and value add style funds outperformed over the quarter, with cash detracting slightly from relative returns.
- Over the last 12 months, the West End has produced significant outperformance.
- Recent portfolio activity has focussed on bringing sectors closer into line with House View targets, whilst reducing uncommitted cash to c.£2m (1.5%). This included an increased exposure to alternatives, reducing exposure to shopping centres and reducing the portfolio's overweight position in central London offices.
- Schroders' outlook is that markets are likely to remain subdued in 2013, but after this the key to performance will be positioning portfolios towards growth. They are starting to see an increase in the availability of property debt and an increased appetite for properties further up the risk spectrum. This is not yet reflected in performance, with the prime versus secondary yield gap being the largest it has ever been.

Partners – Overseas Property

Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Depth of experience in global property investment and the resources they committed globally to the asset class. ■ The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements.

- 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 £92 million, or approximately 70% of the Fund's intended commitment of approximately £132 million. A total of £6.16 million was drawn down over the quarter, across all of the funds listed below apart from Global Real Estate 2008. The draw downs commenced in September 2009.

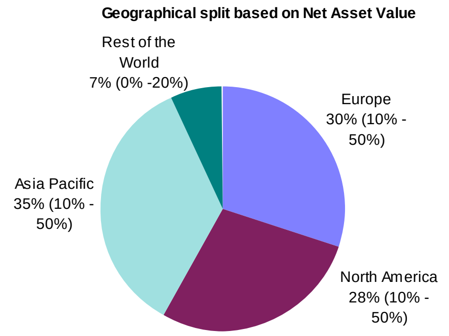
The funds invested to date have been split by Partners as follows:

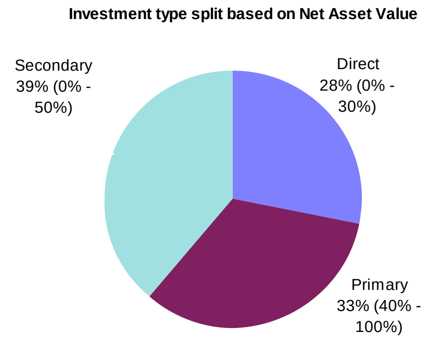
Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 March 2013 (£ Million)	Since Inception Net IRR
Asia Pacific and Emerging Market Real Estate 2009	11.98	13.41	9.1%
Direct Real Estate 2011	8.42	9.22	7.6%
Distressed US Real Estate 2009	14.43	14.24	9.0%
Global Real Estate 2008	29.70	30.25	9.0%
Global Real Estate 2011	14.16	14.35	8.0%
Real Estate Secondary 2009	12.85	14.03	14.7%
Total	**91.55**	**95.50**	**9.5%**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 31 March 2013.

The Net IRR is as expected, and in line with the mandate expectation.

The investments in the funds noted above have resulted in a portfolio that was, as at 31 March 2013, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

The allocation to the geographical allocation and investment type remains similar to the previous quarter.

The exposure to Primary has increased 1% this quarter, but continues to be below the guidelines. Short-term deviation from the allocation restrictions in place are 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 Q1 2013

Distributions since inception total £14.04m, with distributions worth £4.58m over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Over Q1 2013, the manager produced a return of 1.0% compared to the benchmark of -0.4%.

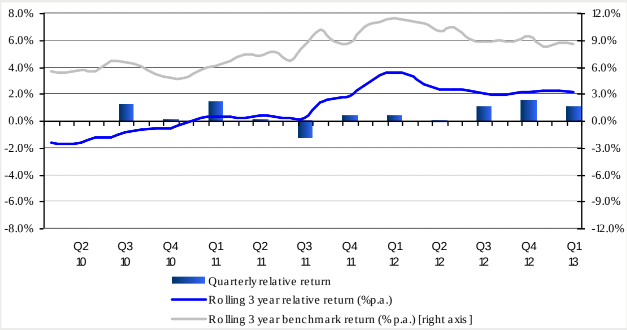
5.13 Royal London Asset Management – Fixed Interest

Mandate	Benchmark	Outperformance Target	Inception Date
UK Corporate Bonds	iBoxx £ non-Gilts all maturities	+0.8%	July 2007

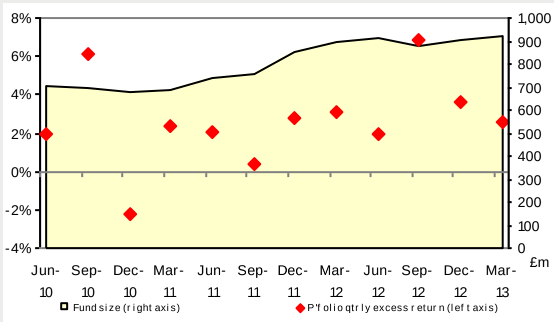
Reason in Portfolio	Reason Manager Selected
To maintain stability in the Fund as part of a diversified fixed income portfolio	■ Focused research strategy to generate added value ■ Focus research on unrated bonds provided a “niche” where price inefficiencies more prevalent ■ Product size means can be flexible within market

Value (£’000)	% Fund Assets	Number of Holdings
£176,526	5.6	243

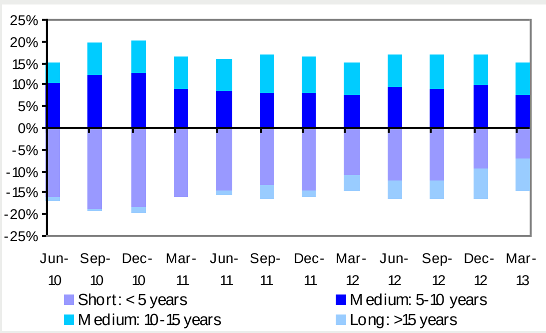
Relative returns #1



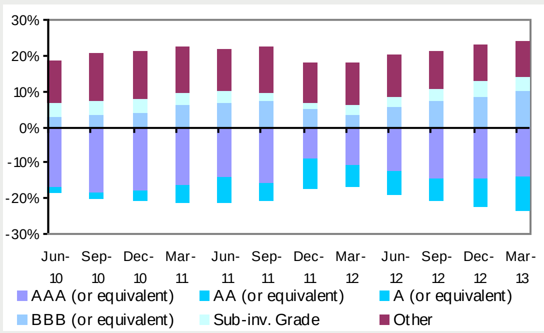
Performance v fund size #3



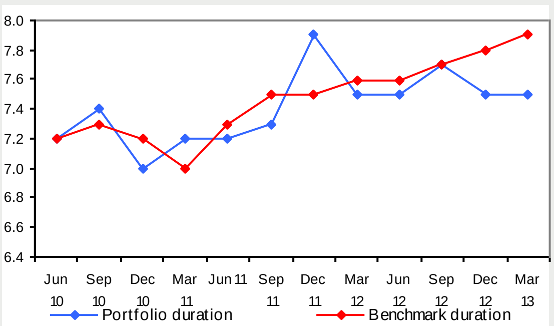
Relative Maturity exposure #8



Relative Ratings exposure #9



Duration #10



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.5	15.8	10.7
Benchmark	1.7	12.0	8.6
relative	+0.8	+3.8	+2.1

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. This has benefited performance and resulted in significant outperformance at the high end of expectations for a mandate of this type.
- Similarly, RLAM favour medium term maturity bonds. This quarter they have moved to a less underweight position in long (over 15 year) 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.

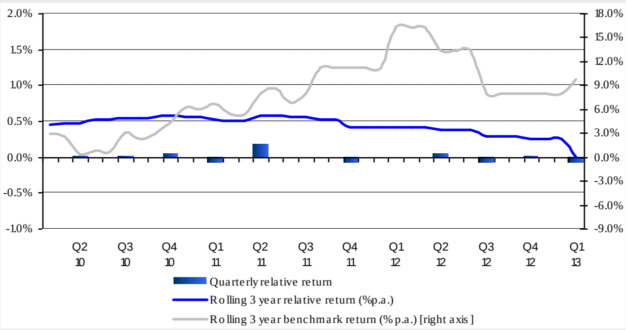
5.14 BlackRock – Passive Multi-Asset

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

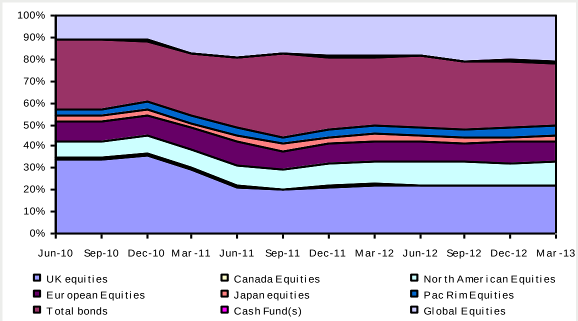
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified portfolio	■ To provide low cost market exposure across multi asset classes ■ Provide efficient way for rebalancing between bonds and equities within a single portfolio

Value (£'000)	% Fund Assets
£1,446,466	46.0

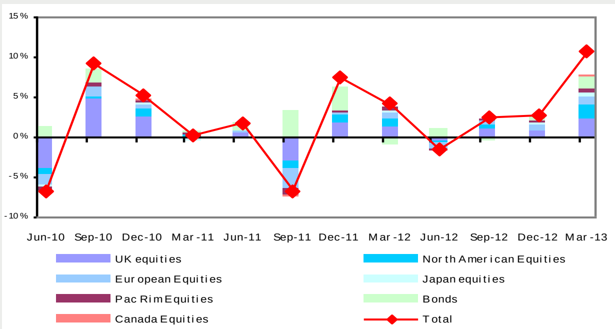
Relative returns #1



Asset Allocation #5



Contribution to absolute return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	10.8	15.0	9.6
Benchmark	10.9	15.1	9.6
relative	-0.1	-0.1	0.0

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.

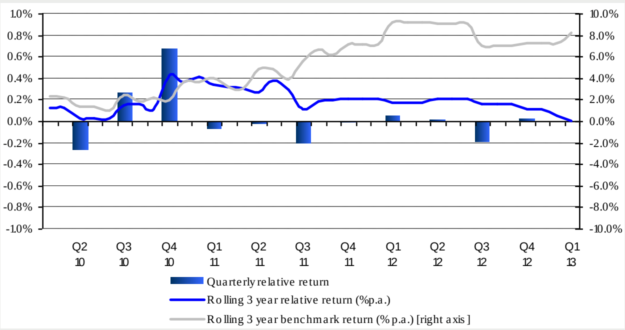
5.15 BlackRock No.2 – Property account ("ring fenced" assets)

Mandate	Benchmark	Outperformance Target	Inception Date
Overseas property	Customised benchmarks using monthly mean fund weights	0%	September 2009

Reason in Portfolio	Reason Manager Selected
This portfolio was created to hold the assets intended for investment into Property.	■ BlackRock were the Fund's passive provider and 'swing fund' and offered the most efficient solution at the time the portfolio was created.

Value (£'000)	% Fund Assets
£60,652	1.9

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.1	8.9	8.2
Benchmark	5.1	9.1	8.2
relative	0.0	-0.2	0.0

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holding in UK Gilts decreased by 17.1%. This was invested in Cash (+12.4%), UK Equity futures (+2.1%) and US Equities (+2.6%).
- The majority of the positive absolute return came from US Equities and UK Equity Futures.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	• UK Equities had a good quarter. The FTSE All-Share Index delivered a 10.3% return over the quarter to 31 March 2013, smaller companies returned 13% whilst medium sized companies lagged slightly, returning 9.8%. Companies' confidence in the future is shown by the number of dividend increases being seen in many sectors, underpinning the yield support that equity prices have long experienced. • CPI inflation remained within the Bank of England's target range over the quarter; the latest figure for CPI inflation is 2.8% (as at 31 March 2013, which is likely to be revised over the quarter by the Office for National Statistics). • The UK Bank Rate remained at 0.5% over the quarter although there was no change to the level of QE, £375bn.	• Official forecasts now suggest a 'triple-dip' recession is unlikely. However, there is little room for manoeuvre – growth is expected to be less than 1% this year – and events beyond the government's control could easily reduce this further. Expected future rises in the inflation rate are also adding to potential problems. • The number unemployed, 2.51m, remains high, although the unemployment rate has held steady at 7.8% over recent months. Increases in wages continue to be subdued whilst the rate of inflation is putting further pressure on consumers.
Overseas Equities:		
North America	• The US Equity Market had a stellar first quarter of 2013 returning 18.5%. The housing market has been improving, and consumer confidence has picked-up somewhat. Corporate America helped, earnings for 2012 were largely as expected, forecasts for 2013 remain positive and there are signs of a pick-up in mergers and acquisitions (and even a return of the leveraged buyout). • The market welcomed the continuation of QE which is now officially dependent on the unemployment rate falling below 6.5% - and staying there – which a majority of the Fed Board do not expect until 2015/16. So QE appears to be here to stay, albeit in reduced monthly amounts.	• After the strong rise in equity prices in the first quarter it would not be surprising if there was a pause for breath in the short term, particularly if some of the mixed signals coming from more recent economic statistics continue. • Tax increases agreed as part of the 'fiscal cliff' negotiations at the end of 2012 added to the automatic spending cuts imposed by the 'sequester' in January have the potential to hold back any recovery.

Asset Class	What happened? Positive Factors	Negative Factors
Europe	• The European markets delivered 9.7% growth over the quarter, continuing the strong rally it experienced over 2012. • Despite the grim big picture, many companies are increasing profits and, perhaps more importantly, dividends. Income is becoming a significant part of share prices' total return (as has been the case in the UK for some time). Europe should be treated as a market of many stocks, not a single stock market. There are opportunities to be grasped, even in the most unpromising areas.	• Unemployment remains high - particularly in the peripheral Eurozone countries as austerity measures impact on confidence. • The 'resolution' of the Cyprus crisis, has set a precedent that could be followed elsewhere – Spain, a possibility. There are already other, peripheral, countries heading into difficulty – Slovenia seemingly next in line – and it will be interesting to see if the same remedies are imposed in future negotiations. The Cyprus 'bail-in' will also have the effect of weakening already weak banks across the Eurozone as depositors move their uninsured cash to perceived 'strong' banks in the region – just in case.
Japan	• Japan was the best performing major market in the first quarter, with a return in sterling of 19.3% and even stronger return in local currency of 21.2%. It is a very long time since we have been able to make such a statement. • The new Prime Minister, Mr Abe, was elected on a platform of monetary and fiscal expansion to overcome deflation and boost the economy. He has already appointed a new Bank of Japan Governor, Mr Kuroda, who markets expect to be fully supportive of these efforts, unlike previous, ultra-conservative incumbents.	• There are still clouds on the horizon, not least international politics in the region. China, in particular, is not happy with the perceived 'beggar-thy-neighbour' policies being proposed and the US Congress might start to grumble if the yen weakens much more. But for the time being the rest of the developed world seem content for Japan to continue its experiment in reflation.
Asia Pacific	• The region had a relatively subdued first quarter, returning 8.8%. As usual, China has been the main area of returns and concern. The new President, Xi Jinping, took over in March, with stability the watchword, but with some major problems to address. Exports have recovered somewhat from the lows of last summer but the lack of growth in the Western developed world limits any rapid recovery. Overall GDP should grow in 2013 at about the same rate as last year – around 7.5% - which might sound high, but for China is nearly equivalent to stagnation.	• In the short term the new Chinese administration's room for manoeuvre is constrained by a property bubble – the legacy of the massive expansion in credit in 2008/9. Easing monetary conditions to promote growth is not possible until property lending throughout the economy can be controlled more rigorously. In addition, geopolitically there is, of course, the question of North Korea. So far markets have blithely ignored all the table-thumping and sabre-rattling but there is always the chance that the situation gets out hand.

Asset Class	What happened? Positive Factors	Negative Factors
Emerging Markets	• Emerging Market indices rose approximately 5% over the quarter – a somewhat lacklustre performance. The reasons are very similar to those described above in the Asian section – a reliance on exports to a developed world growing little, if at all. However, the fastest growing areas in Emerging Markets generally are in the domestic economy – consumption and services – aimed at the burgeoning middle class in many countries with an increasing propensity to spend.	• Political instability is the main investor concern at present with the political leadership of China facing its first serious test in North Korea and the increasing uncertainties in Latin America proving a drag on growth. There is also a strong correlation between Emerging Market indices and the US dollar. When the latter is strong, as it has been, they tend to underperform – and vice versa.
Gilts	• Gilts returned 0.7% over the 3 months to the end of March 2013. The recent downgrade by Moody's to AA Stable in this asset class has not impacted on it continuing to be regarded as having 'safe haven' status at the moment.	• The safe haven position of Gilts is inextricably linked to the measures taken to resolve the Eurozone crisis. We continue to be concerned that this asset class may experience falling capital values in the near term as markets work through the sovereign crisis. There is a short term risk of yields decreasing on more QE.
Index Linked Gilts	• With limited supply and investors continuing to seek inflation protection, demand for Index Linked Gilts remains high, thus supporting prices. There are pockets of value to be found in this asset class.	• A negative real yield on long-dated index-linked stocks is unsustainable over the longer term in an environment in which central banks are able to successfully control inflation within a target range.
Corporate Bonds	• Sterling Corporate Bonds produced a positive return of 1.8%, benefiting from the strength of corporate balance sheets and the higher yields relative to gilts. The interest rate outlook is stable, and the returns available make the sector appealing to some investors.	• The Corporate Bond Market is currently suffering from a lack of liquidity and the tightening of credit spreads means that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they did 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 Q1 2013. The lack of growth in the UK economy compounded these issues.

Economic statistics

	Quarter to 31 March 2013			Year to 31 March 2013		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.3%	n/a	0.6%	0.6%	n/a	1.8%
Unemployment rate	7.9%	11.1%[4]	7.6%	7.9%	11.1%[4]	7.6%
Previous	*7.7%*	*11.0%*	*7.8%*	*8.3%*	*10.3%*	*8.2%*
Inflation change[2]	0.5%	0.5%	1.4%	2.8%	1.7%	1.5%
Manufacturing Purchasing Managers' Index	48.3	46.8	51.3	*48.3*	46.8	51.3
Previous	*51.4*	*47.5*	*50.7*	*51.9*	*47.7*	*53.4*
Quantitative Easing / LTRO [3]	£375bn	€1,018bn	$3,029bn	£375bn	€1,018bn	$3,029bn
Previous	*£375bn*	*€1,018bn*	*$2,774bn*	*£325bn*	*€1,018bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 March 2013 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 February 2013

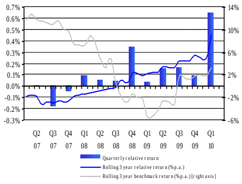
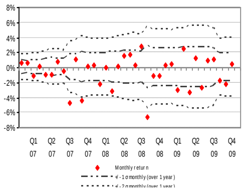
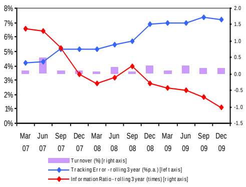
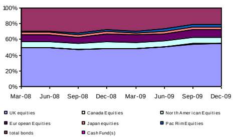
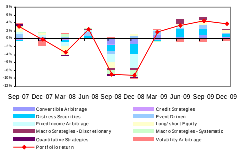
Appendix 2: Glossary of Terms

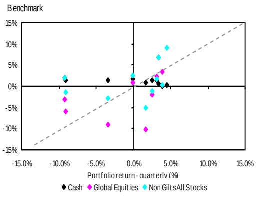
Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner 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.

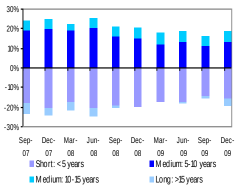
Appendix 3: Glossary of Charts

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

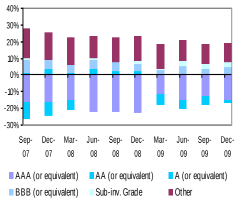
Reference		Description
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark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

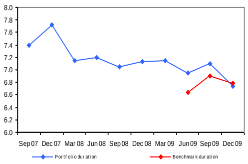
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. 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 4: 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	+4%
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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