Avon Pension Fund

Review for period to 30 June 2013

Contents

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1 Executive Summary

This report is produced by JLT Employee Benefits ("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 decreased by £36m over the second quarter of 2013 to £3,099m.

Strategy

- Equity markets paused over the last quarter following two very strong quarters. Japan was once again the best performer at 4.5%, with emerging markets equities producing a negative return of -7.5%. Over the last twelve months, European and Japanese equities produced the highest returns (of 26.7% and 26.3%), with emerging market equities trailing at 7.2%.
- The three-year equity returns were well ahead of the assumed strategic return. The three-year figure includes the very strong markets towards the end of 2010, which will be the next to fall out of the analysis.
- Both the three-year nominal and index-linked bond returns were lower than at 31 March but continued to exceed their assumed strategic returns. This was a result of falling bond yields, particularly during 2011, although yields began to rise over the most recent quarter.
- Overseas Fixed Interest remained below the assumed strategy return, affected by rising yields within European bonds.
- Both Hedge funds and Property remain below their assumed strategic returns but there has been some further improvement over the last quarter.

Managers

- In line with general market returns, the absolute manager returns have been mixed over the last quarter. The UK, European and global equity funds saw small rises, with the SSgA Pacific and Genesis funds falling in value. Apart from Genesis (at -7.1%), all of the manager returns were in a narrow range between -2.6% and 1.9%.
- 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 5.8% above the benchmark. TT's three year performance has improved again to 1.7% p.a. above their benchmark, but this is below their target of +3-4% p.a. above the benchmark.
- All managers apart from TT and the four fund-of-hedge funds outperformed their 3-year targets.
- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds are now at a size such that Avon's investment now represents almost all of the pooled fund holdings. However, the Panel has previously concluded that the funds could be sustained even if the Avon Pension Fund was the only investor.
- 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.
- Signet have agreed to a joint venture with Morgan Creek Capital Management, a US based alternatives manager with $7bn under management. The deal is still subject to regulatory approval and some consolidation within the hedge fund industry is to be expected. The Global Fixed Income team relevant to the Avon Pension Fund is not changing.

2 Market Background

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

Market Statistics

Yields as at 30 June 2013	% p.a.
UK Equities	3.53
UK Gilts (>15 yrs)	3.43
Real Yield (>5 yrs ILG)	-0.03
Corporate Bonds (>15 yrs AA)	4.52
Non-Gilts (>15 yrs)	4.67

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.18	-0.16	0.19
UK Gilts (>15 yrs)	0.41	0.51	-0.71
Index-Linked Gilts (>5 yrs)	0.40	0.07	-0.70
Corporate Bonds (>15 yrs AA)	0.46	0.27	-0.80
Non-Gilts (>15 yrs)	0.44	0.05	-0.72

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-5.9	-4.6	7.8
Index-Linked Gilts (>5 yrs)	-7.4	2.7	9.6
Corporate Bonds (>15 yrs AA)	-4.6	1.2	7.4
Non-Gilts (>15 yrs)	-4.3	4.4	7.9

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-1.7	17.9	12.8
Overseas Equities	0.1	21.9	12.4
USA	3.0	24.9	17.9
Europe	0.4	26.7	9.4
Japan	4.5	26.3	8.2
Asia Pacific (ex Japan)	-7.4	13.4	7.1
Emerging Markets	-7.5	7.2	2.8
Property	1.9	4.1	6.0
Hedge Funds	0.2	9.5	6.7
Commodities	-5.8	5.5	4.3
High Yield	-1.2	15.0	10.5
Emerging Market Debt	-5.6	1.1	7.3
Senior Secured Loans	1.3	8.7	6.4
Cash	0.1	0.4	0.5

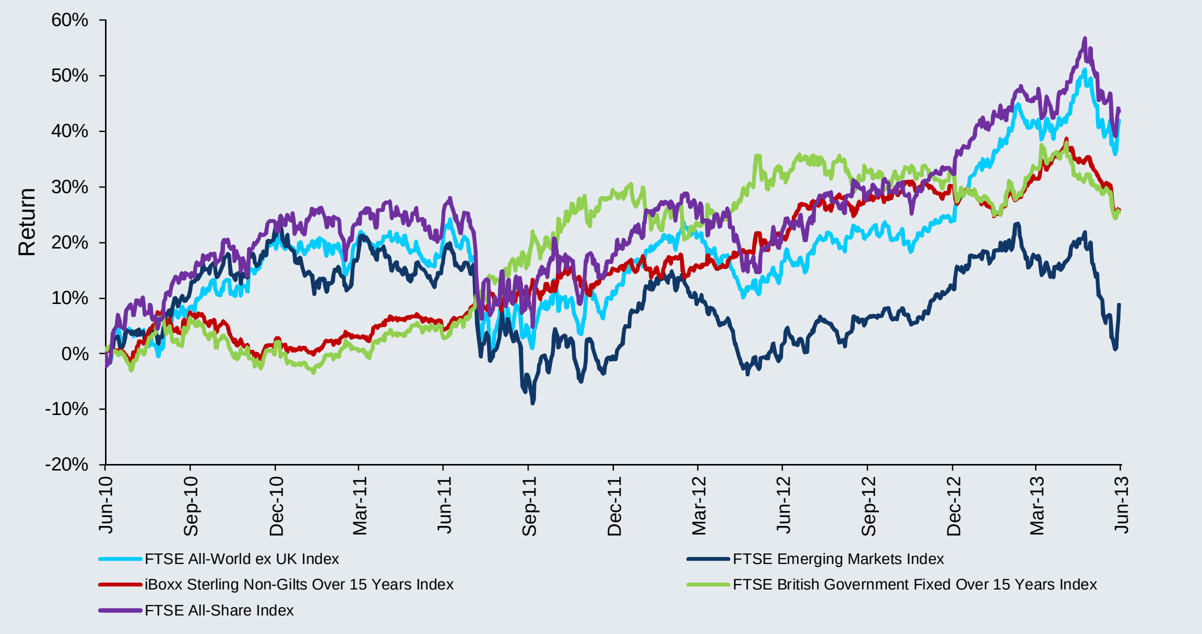
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-0.1	-3.3	0.5
Against Euro	-1.3	-5.6	-1.5
Against Yen	5.5	20.4	4.4

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation - RPI	0.4	3.3	3.7
Price Inflation - CPI	0.2	2.9	3.2
Earnings Inflation *	1.4	1.1	1.7

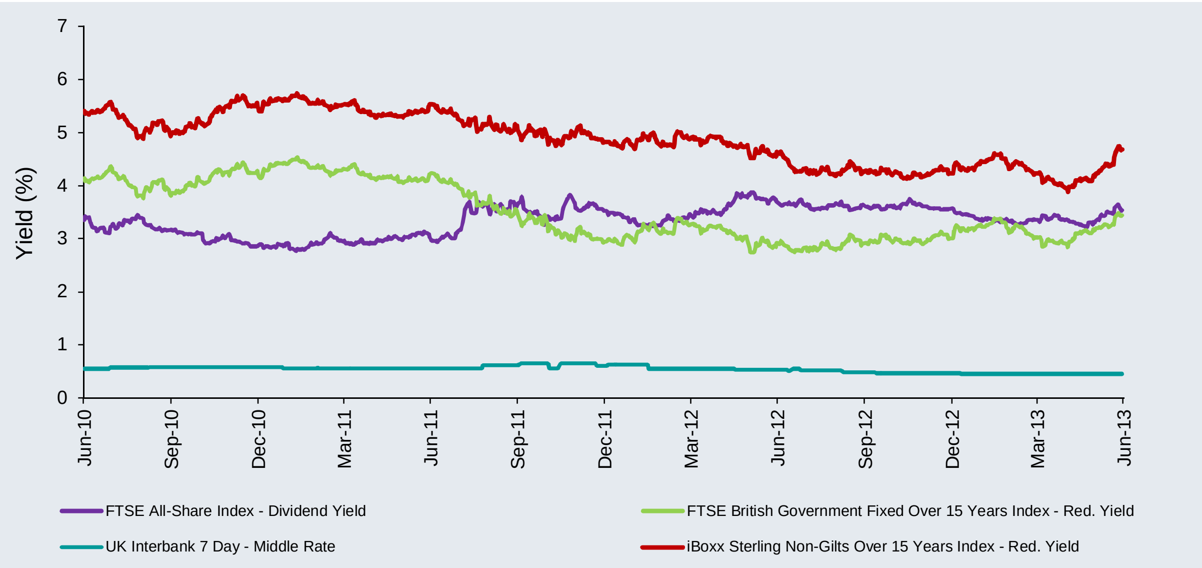
* Subject to 1 month lag

Source: Thomson Reuters and Bloomberg

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 2011 and 2012 shows falling gilt and corporate bond yields, whilst there has been a rise over the second quarter of 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 June 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	12.8	Well ahead of the assumed strategic return following strong returns throughout the period apart from mid-2011. Returns were particularly strong towards the end of 2010, which will fall out of the analysis in the coming quarters.
Global Equities	8.4	12.4	
UK Gilts	4.7	7.8	Significantly ahead of the assumed strategic return as gilt yields fell significantly during 2011. However the returns are lower than in the previous report as gilt yields have begun to rise over the most recent quarter.
Index Linked Gilts	5.1	9.6	
UK Corporate Bonds	5.6	6.9	
Overseas Fixed Interest	5.6	2.3	Behind the assumed strategic return, affected by rising yields within European bonds.
Fund of Hedge Funds	6.6	2.9	Behind the assumed strategic return following a negative return in 2011. More recent returns have been steady and an improvement on 2011, with return over the last twelve months being 6.9%. Low LIBOR levels could lead to continued low performance.
Property	7.4	6.0	This remains behind the assumed strategic return, although there have been some signs of a potential recovery during 2013.

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 30 June 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	30 June 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	629,591	20.3	18.0
Overseas Equities	1,380,640	44.6	42.0
Bonds	580,204	18.7	20.0
Fund of Hedge Funds	220,407	7.1	10.0
Cash (including currency instruments)	51,222	1.7	-
Property	237,079	7.6	10.0
TOTAL FUND VALUE	**3,099,143**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets decreased by £36m over the second quarter of 2013 to £3,099m. Each asset class (except for Property) contributed to the fall with the majority (£31m) coming from bonds.
- In terms of the asset allocation, market movements resulted in a shift away from bonds and towards property and overseas equities as bonds produced a return of around -5%. This moved the bond allocation further away from the strategic benchmark weight but the property allocation closer.
- The Fund remains overweight in equities and underweight in bonds, hedge funds and property.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 March 2013 Value £'000	31 March 2013 Proportion of Total %	Net new money £'000	30 June 2013 Value £'000	30 June 2013 Proportion of Total %
Jupiter	UK Equities	139,815	4.5	-	140,717	4.5
TT International	UK Equities	162,741	5.2	-	163,649	5.3
Invesco	Global ex-UK Equities	218,121	7.0	-	221,159	7.1
Schroder	Global Equities	199,613	6.4	-	201,966	6.5
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	103,009	3.3	-	101,947	3.3
Genesis	Emerging Market Equities	158,436	5.1	-	147,236	4.8
MAN	Fund of Hedge Funds	63,955	2.0	-	64,160	2.1
Signet	Fund of Hedge Funds	67,197	2.1	-	65,478	2.1
Stenham	Fund of Hedge Funds	34,937	1.1	-	35,591	1.1
Gottex	Fund of Hedge Funds	55,059	1.8	-	55,178	1.8
BlackRock	Passive Multi-asset	1,446,466	46.1	1,000	1,418,832	45.8
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	60,652	1.9	-4,800	55,380	1.8
RLAM	Bonds	176,526	5.6	-	171,978	5.5
Schroder	UK Property	132,500	4.2	-	135,421	4.4
Partners	Property	95,729	3.1	3,800	104,279	3.4
Record Currency Mgmt	Dynamic Currency Hedging	-3,117	-0.1	-	-3,609	-0.1
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	7,955	0.3	-	6,832	0.2
Internal Cash	Cash	15,836	0.5	-	12,949	0.4
Rounding		-1	-0.1	-	-	-
TOTAL		**3,135,429**	**100.0**	**0**	**3,099,143**	**100.0**

Source: Avon Pension Fund Data provided by WM Performance Services

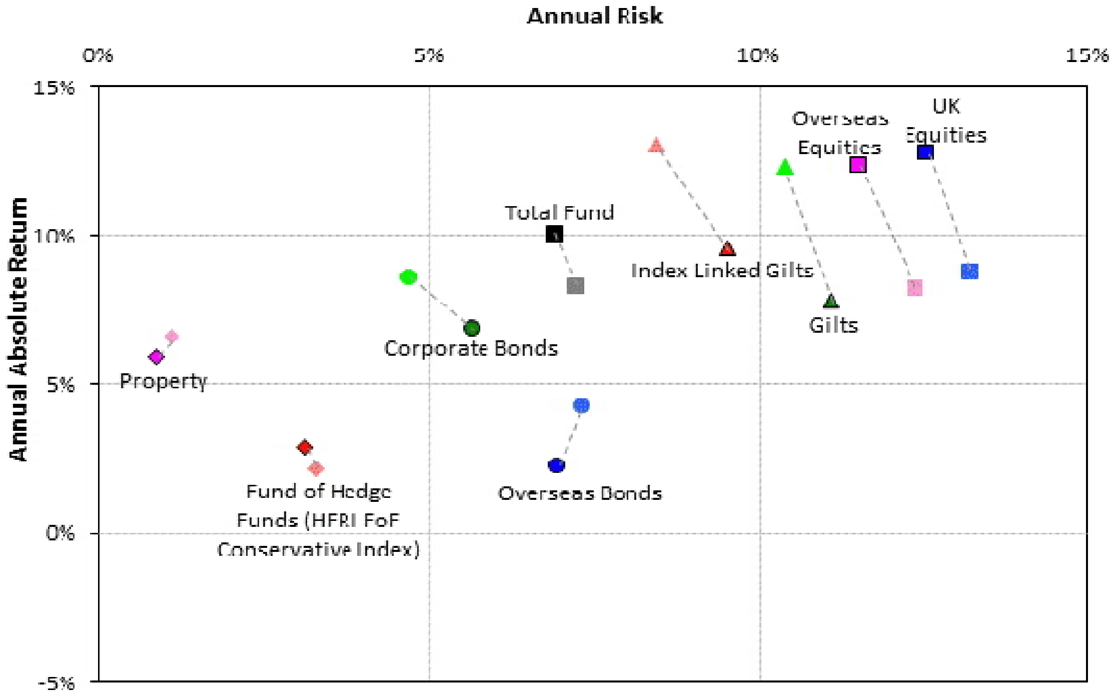
4 Performance Summary

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 June 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 30 June 2013

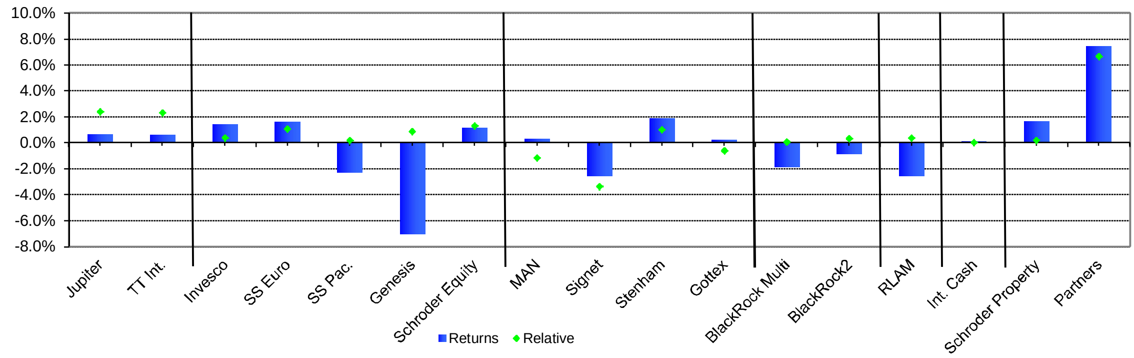


- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- 3-year equity returns increased by 4% p.a. to over 12% p.a. as the sharp falls of Q2 2010 fell out of the analysis. This was also despite a slight fall in UK equities over the last quarter.
- The Property return continued to fall, although not as sharply as in previous quarters as returns begin to show some improvement.
- Hedge funds continue to produce a steady, albeit low, return, with returns stabilising over the last year.
- Both gilt and index-linked gilt 3-year returns fell as yields rose over the last quarter and led to negative quarterly returns. Corporate Bond and Overseas Bond returns were also affected by yield rises.
- In terms of risk, the 3-year equity volatility decreased as negative Q2 2010 returns were replaced by more steady returns, with the converse occurring for Gilts, Index-linked Gilts and Corporate Bonds.
- The three-year return on equities, gilts, index-linked gilts and corporate bonds are above their assumed strategic return. Property, overseas fixed interest and hedge funds remain below their assumed strategic return.

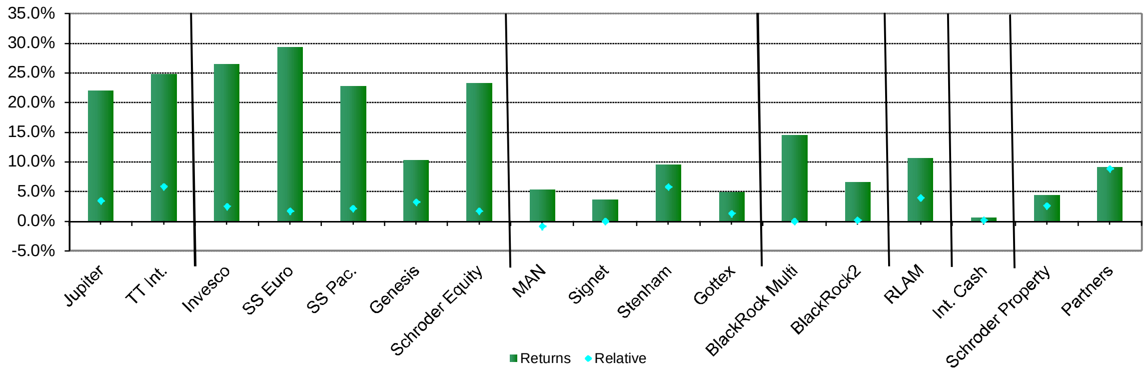
Aggregate manager performance

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

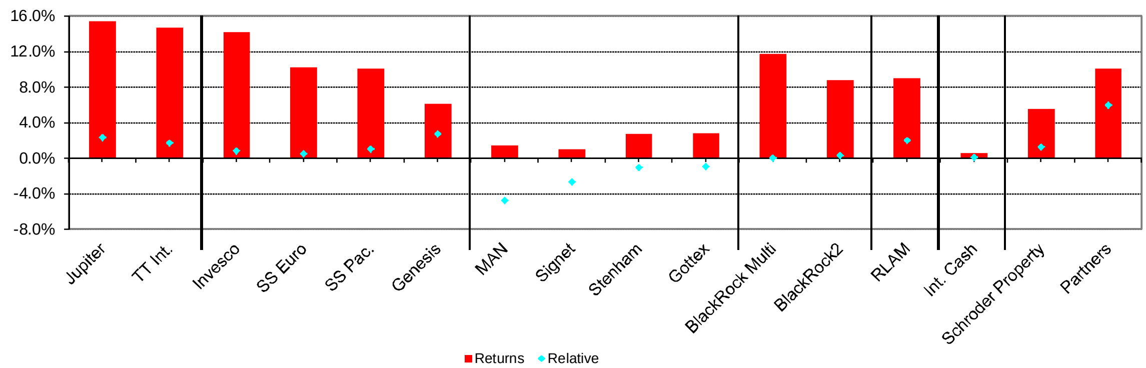
Absolute and relative performance - **Quarter to 30 June 2013**



Absolute and relative performance - **Year to 30 June 2013**



Absolute and relative performance – **3 years to 30 June 2013**



Source: Data provided by WM Performance Services

Partners returns are lagged by 1 quarter.

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of June 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.

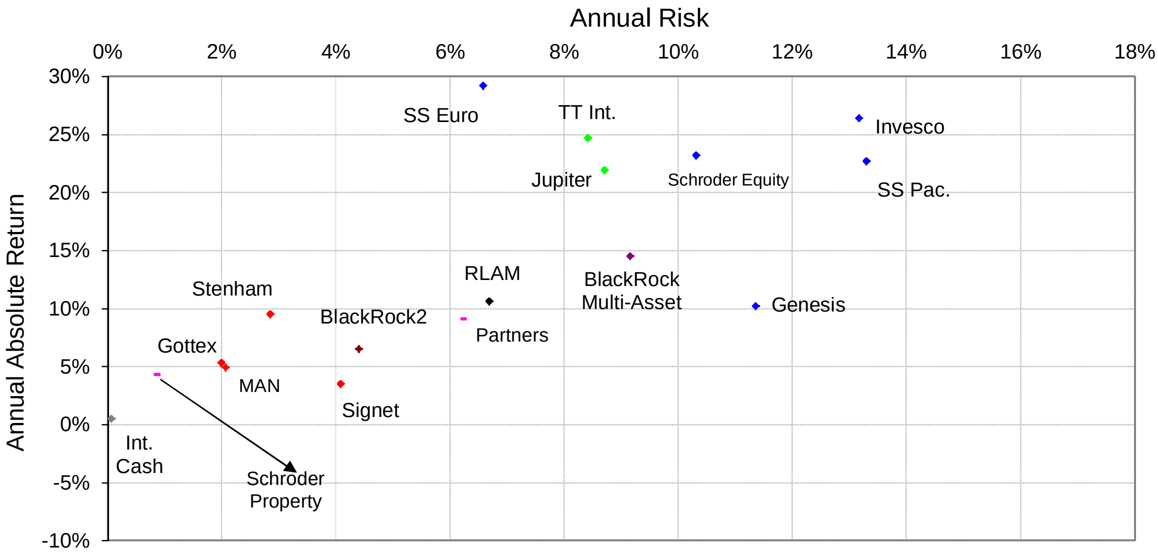
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.3	+3.4	+2.3	Target met
TT International	+2.3	+5.8	+1.7	Target not met
Invesco	+0.3	+2.4	+0.8	Target met
SSgA Europe	+1.0	+1.7	+0.5	Target met
SSgA Pacific	+0.2	+2.1	+1.0	Target met
Genesis	+0.8	+3.2	+2.7	Target met
Schroder Equity	+1.3	+1.7	N/A	N/A
Man	-1.2	-0.9	-4.8	Target not met
Signet	-3.4	-0.1	-2.7	Target not met
Stenham	+1.0	+5.7	-1.1	Target not met
Gottex	-0.6	+1.3	-1.0	Target not met
BlackRock Multi - Asset	0.0	-0.1	0.0	Target met
BlackRock 2	+0.3	+0.1	+0.3	Target met
RLAM	+0.3	+3.8	+2.0	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.2	+2.6	+1.2	Target met
Partners Property	+6.6	+8.8	+6.0	Target met

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

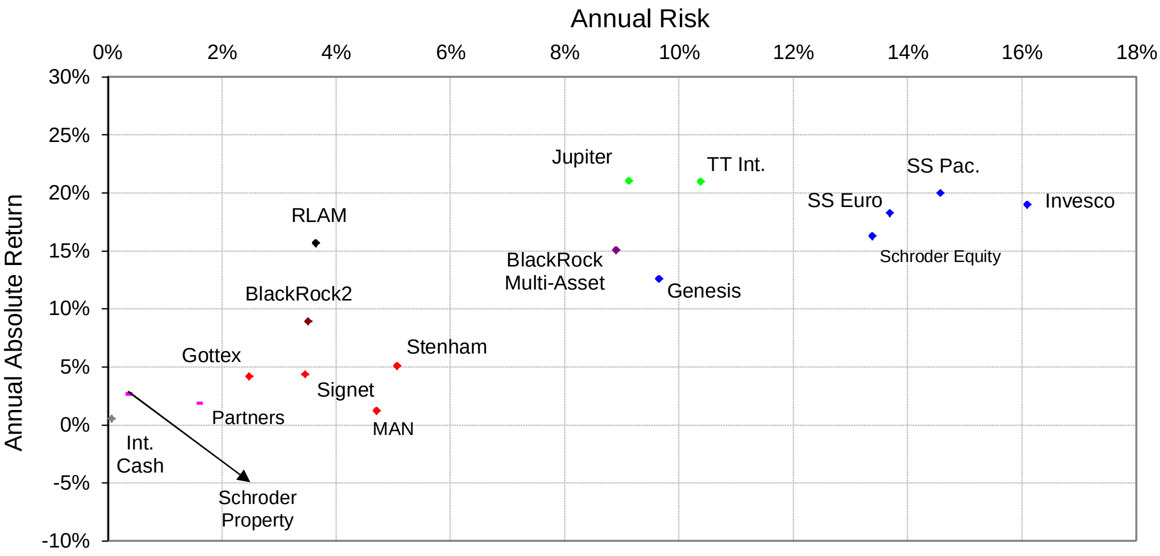
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2013 of each of the funds. We also show the same chart, but with data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

1 Year Risk v 1 Year Return to 30 June 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 March 2013

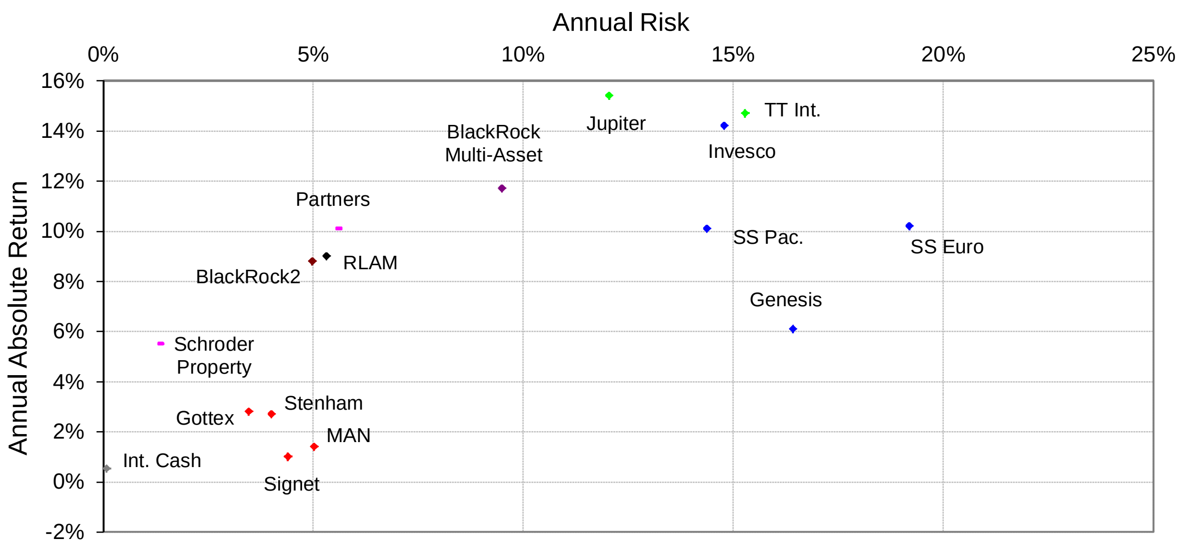


Source: Data provided by WM Performance Services

- 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 of each of the developed equity managers have risen to above 20%, with the risk falling. Conversely, the return of the emerging equity manager, Genesis, has fallen from 12.6% to 10.2%, with its risk increasing.
- Hedge fund managers MAN and Stenham have seen their one-year returns significantly increase.
- RLAM's one-year return has fallen from 15.7% to 10.6%.

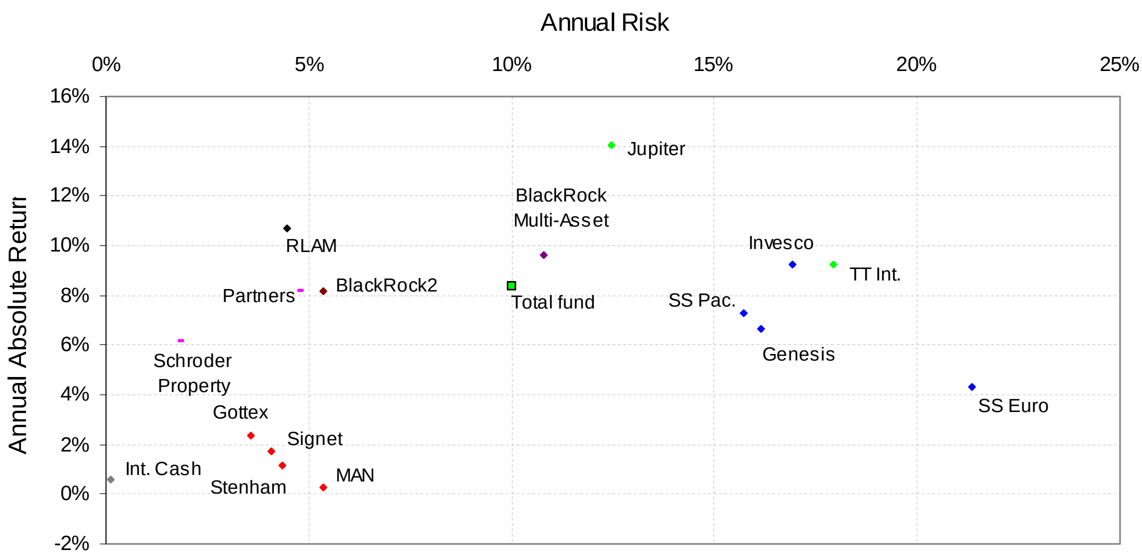
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2013 of each of the funds. We also show the same chart, but with data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

3 Year Risk v 3 Year Return to 30 June 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 March 2013



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 chart since last quarter is similar to that seen in the one-year chart.
- The three-year return from the developed equity managers has improved, with risk reducing, whereas Genesis's return has reduced and risk increased.
- RLAM's three-year return has decreased from 10.7% p.a. to 9.0% p.a.
- Three-year returns from the hedge fund managers have improved apart from Signet.
- The 3-year risk figures have remained at a broadly consistent level for non-equity returns. 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, Blackrock Multi-asset and corporate bonds (RLAM). Each of these produced a double-digit return.
- Over three years, the best performer remains Jupiter at 15.4% p.a., closely followed by TT and Invesco. Whilst the hedge fund returns improved, they were still the lowest at 1-3% p.a.
- The Fund of Hedge Fund and property managers have provided low volatility over both the 1 and 3 year period. However, over the longer 3 year period they have each 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

- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds are now at a size such that Avon's investment now represents almost all of the pooled fund holdings. However, the Panel has previously concluded that the funds could be sustained even if the Avon Pension Fund was the only investor.
- The performance of Stenham and any changes to the team should be monitored closely following the announcement of their change in business strategy. Q2 2013 was a further 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.
- Signet have agreed to a joint venture with Morgan Creek Capital Management, a US based alternatives manager with $7bn under management. The deal is still subject to regulatory approval and some consolidation within the hedge fund industry is to be expected. The Global Fixed Income team relevant to the Avon Pension Fund is not changing.

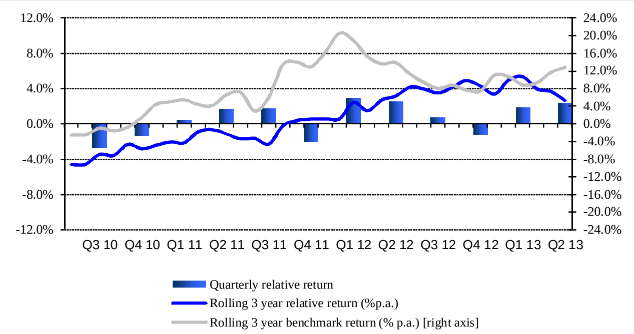
5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

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

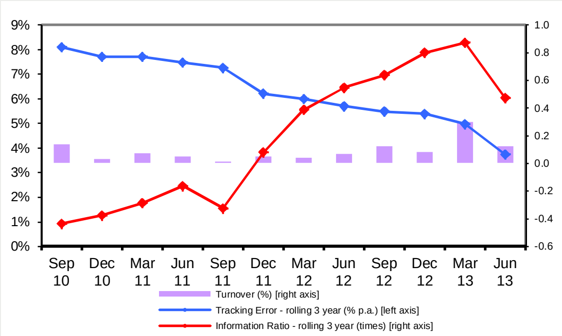
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear and robust approach to evaluating SRI factors within the investment process ■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities ■ Corporate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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£140,717	4.5	3.7%	N/A

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.7	21.9	15.4
Benchmark	-1.7	17.9	12.8
Relative	+2.3	+3.4	+2.3

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

Comments:

- Jupiter are outperforming their 3 year performance target.
- The Fund's allocation to Cash (5.2%) has decreased from 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 (tracking error) is expected to be high. Over Q2 2013, Jupiter was significantly underweight in Consumer Goods and Basic Materials, with significant overweight positions in Consumer Services and Industrials.
- The fall in information ratio over the last quarter is a result of their three-year relative return falling from +5.2% p.a. to +2.3% p.a. Tracking error has continued to fall.

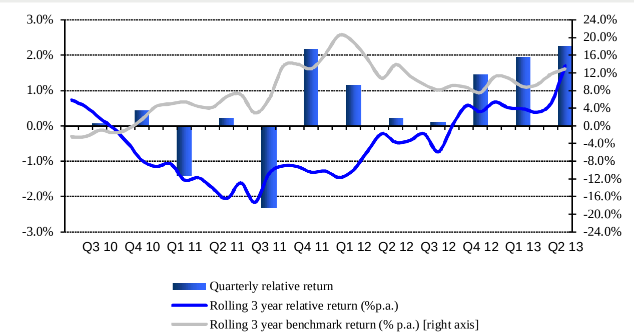
5.2 TT International – UK Equities (Unconstrained)

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

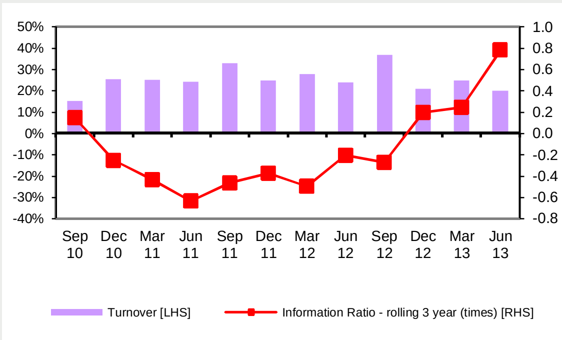
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Favoured the partnership structure that aligns managers and Fund's interests. ▪ Focussed investment activity and manages its capacity ▪ Clear, robust stock selection and portfolio construction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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£163,649	5.3	2.5%	56

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.6	24.7	14.7
Benchmark	-1.7	17.9	12.8
Relative	+2.3	+5.8	+1.7

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 5.3% and was underweight in Oil & Gas and Utilities, by 5.4% and 2.6% respectively, at the end of the quarter.
- Turnover, over the second quarter, decreased to 19.8% compared to the last quarter's number of 24.6%. 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 2.52%. However, there has been a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio increased sharply by 0.54 to 0.78, demonstrating an improvement in the relative return.

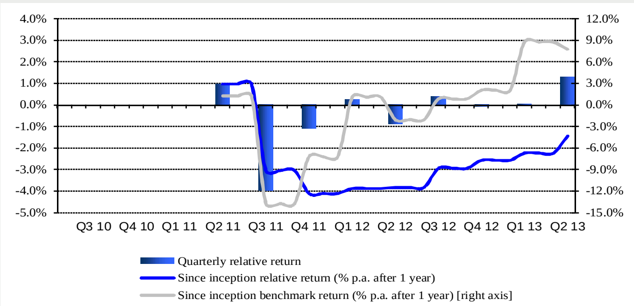
5.3 Schroder – Global Equity Portfolio (Unconstrained)

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
£201,966	6.5	N/A	N/A

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.2	23.2	N/A
Benchmark	-0.1	21.2	N/A
Relative	+1.3	+1.7	N/A

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

Comments:

- The return was above the benchmark over the 3 months and 1 year periods.
- 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 (those stocks that are sensitive to movements in the economic cycle such as Financials).
- Within the market, the better performing stocks rotated from defensive stocks to cyclicals and back again over the course of the quarter, as risk appetite was transitory once again. Equities made gains in April but markets subsequently fell on concerns about the US Fed potentially reducing its programme of asset purchases (Quantitative Easing) at the end of this year.
- The fund's outperformance over the quarter was driven by Financials, in particular Japanese bank SMFG. Outperformance was also strong in energy and IT stocks. Materials was the largest detractor, with Gold miner Newcrest Mining being their weakest stock in this sector.
- From a regional perspective, stock selection in North America was the main positive driver during the quarter due to the IT, financials, energy and utility holdings in this region.
- Overall Schroder remain reasonably positive on global equities for the next 12 to 18 months: equity valuations are cheap compared to bonds.
- 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.

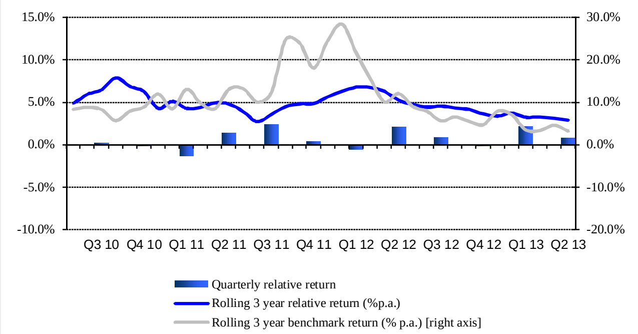
5.4 Genesis Asset Managers – Emerging Market Equities

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

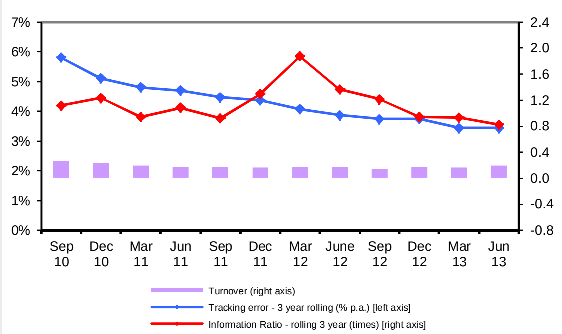
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Long term investment approach which takes advantage of evolving growth opportunities ▪ Niche and focussed expertise in emerging markets ▪ Partnership structure aligned to delivering performance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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£147,236	4.8	3.4%	169

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-7.1	10.2	6.1
Benchmark	-7.9	6.8	3.3
relative	+0.8	+3.2	+2.7

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, South Africa and Russia, while underweight to South Korea and China, 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) remained unchanged at 3.4% in Q2 2013. After decreasing in the previous quarter, the tracking error has remained stable in this quarter. The 3 year information ratio (risk adjusted return), decreased from 0.9 to 0.8.
- The allocation to Cash (1.1%) decreased slightly compared to the previous quarter (1.9%).
- On an industry basis, the Fund is overweight Consumer Staples (+6.9%), Materials (+4.0%), Health Care (+2.6%), and Information Technology (+2.2%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-4.0%), Telecom Services (-3.3%), Industrials (-2.2%) and Utilities (-2.0%).

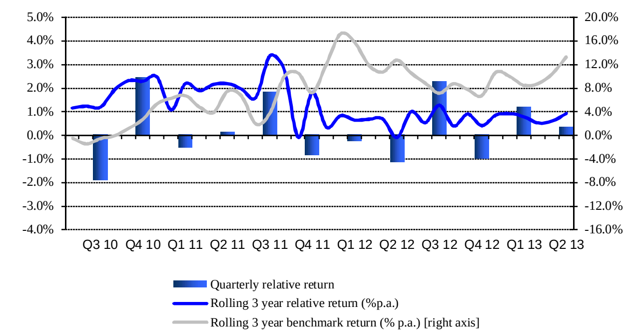
5.5 Invesco – Global ex-UK Equities (Enhanced Indexation)

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

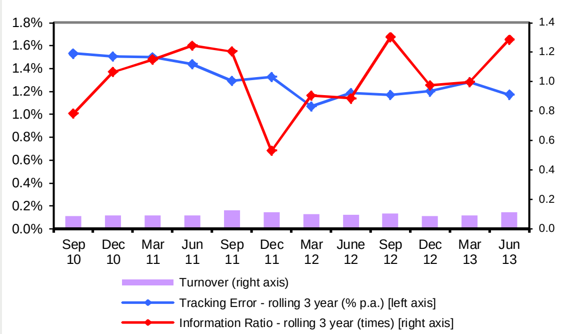
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis ■ One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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£221,159	7.1	1.2%	353

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.4	26.4	14.2
Benchmark	1.0	23.4	13.3
relative	+0.3	+2.4	+0.8

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 decreased to 9.0% at the end of the second quarter of 2013 compared to 10.7% at the end of the first quarter of 2013, reflecting the decrease in market volatility over the period.
- The turnover for this quarter of 11.1% increased from 9.0% in the previous quarter. The number of stocks (353) decreased compared to the previous quarter. It remains an appropriate number for the enhanced indexation approach.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- Invesco's 3 year performance has moved further above the benchmark and remains above their outperformance target.

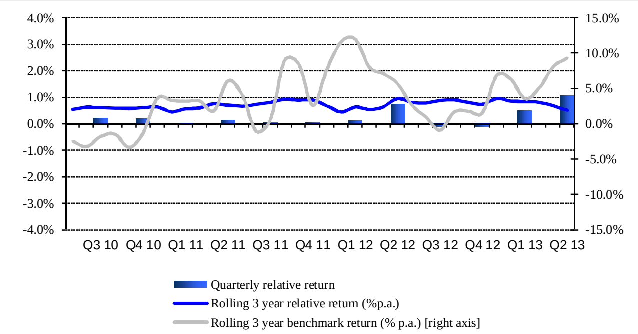
5.6 SSgA – Europe ex-UK Equities (Enhanced Indexation)

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

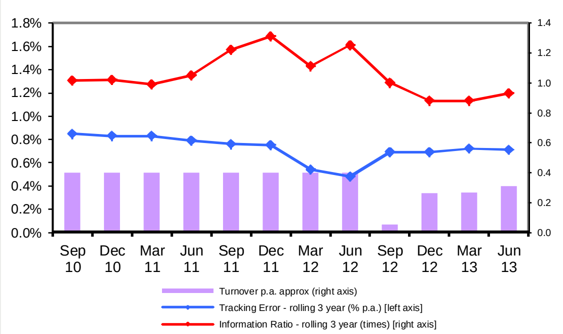
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£34,978	1.1	0.7%	N/A

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	29.2	10.2
Benchmark	0.5	27.1	9.7
relative	+1.0	+1.7	+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 all three countries.
- The total pooled fund size on 30 June 2013 was £35.06m, falling over the last quarter and falling significantly since the size of £306.12m on 31 March 2011. This means that the Fund is practically the only investor, although the Panel has previously concluded 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 26.7% to 30.7%, closer to that previously seen. The tracking error has almost remained in line with the previous quarter.
- The information ratio has broadly remained the same as compared to the previous quarter.

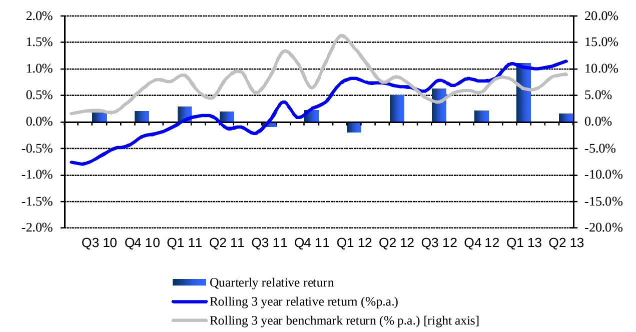
5.7 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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

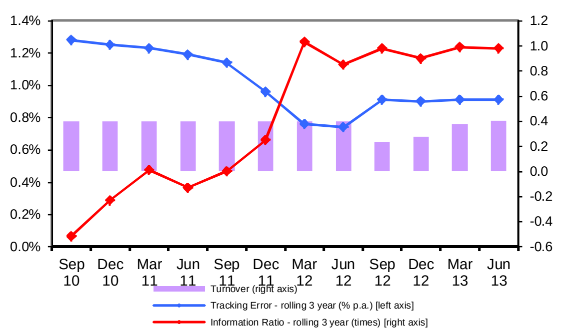
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£66,969	2.2	0.9%	N/A

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.3	22.7	10.1
Benchmark	-2.5	20.2	9.0
relative	+0.2	+2.1	+1.0

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 (56.6%) is invested in Japan.
- Turnover has further increased to 40.5% after an increase in the previous quarter as well.
- The information ratio (+0.98) has slightly decreased compared to the previous quarter (+0.99).
- The tracking error of the fund has remained the same as it was last quarter.
- The pooled fund size is £68.71m of which Avon hold £66.97m. This is a higher proportion of the fund than as at the end of March 2013, but again the conclusion was that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund outperformed over the quarter, although not to the same extent as last quarter. During 2013 SSgA's quantitative model for this Fund has incorporated new quality, short interest and solvency and operating efficiency (SOE) factors into their analysis.

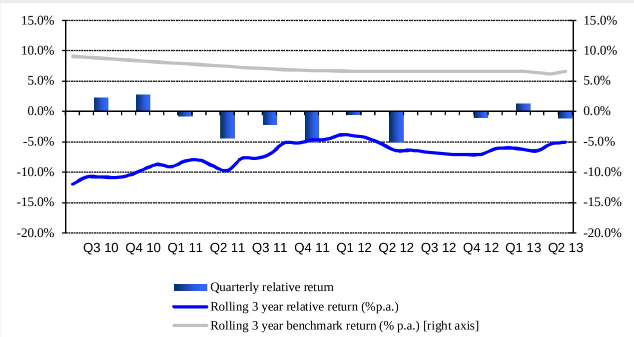
5.8 MAN – Fund of Hedge Funds

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

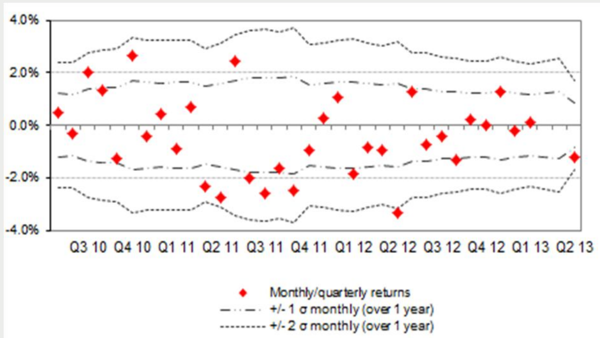
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Institutional infrastructure and resources (not common within hedge funds at time of appointment) ▪ Resources to provide multi-strategy investment approach ▪ Higher return and volatility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

Value (£'000)	% Fund Assets	Number of Funds Over Quarter
£64,160	2.1	46

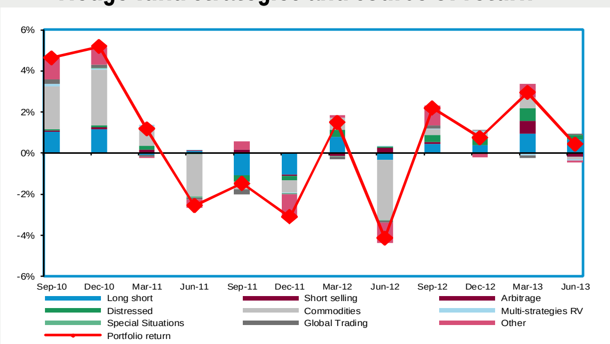
Relative returns #1



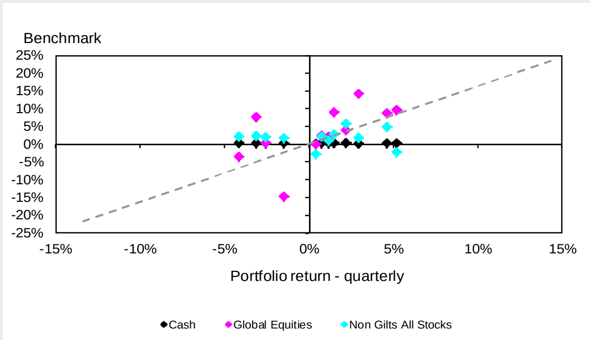
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.3	5.3	1.4
Benchmark	1.5	6.3	6.5
relative	-1.2	-0.9	-4.8

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

Comments:

- Their 3 year absolute performance has further increased, and now stands at 1.4% p.a.
- MAN has a higher outperformance target than the other fund of hedge fund managers but they are not outperforming Stenham and Gottex over the longer term. However, MAN's shorter-term absolute performance has improved.
- MAN have restructured the portfolio, increasing concentration and more dynamic allocations. The restructure completed in Oct 2012 and 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.
- The Panel agreed to redeem the Fund's holding with MAN in June 2013.

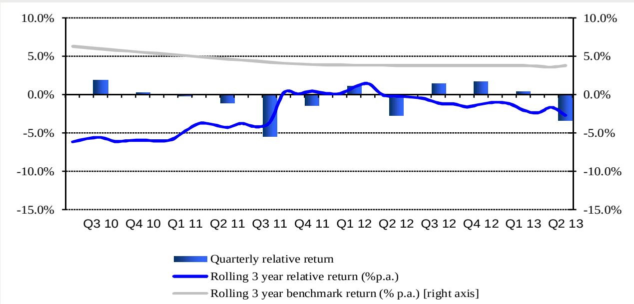
5.9 Signet – Fund of Hedge Funds

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

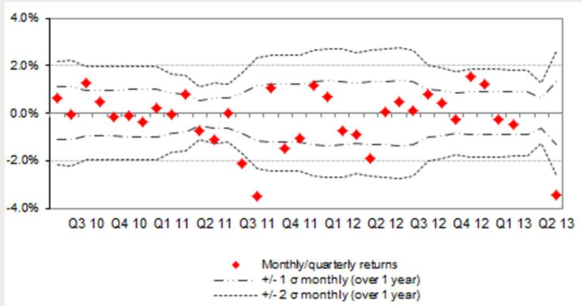
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche fixed income strategy focus ■ Established team with strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£65,478	2.1	33

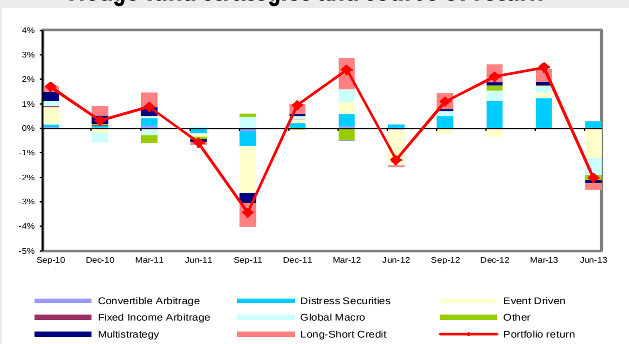
Relative returns #1



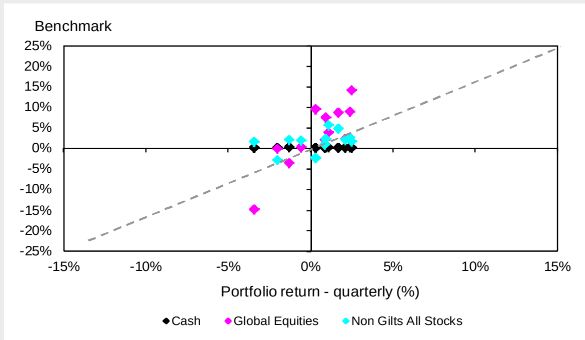
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.6	3.5	1.0
Benchmark	0.9	3.6	3.8
relative	-3.4	-0.1	-2.7

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

Comments:

- The main detractors to Signet's quarterly performance were Event-Driven and Special Situations (-1.2%) and Global Macro and Relative Value (-0.7%). Both of these strategies were around 20% of the fund's asset allocation.
- The fund's largest allocation, Long-Short Credit (24% of the fund), also contributed negatively.
- 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 other asset classes.

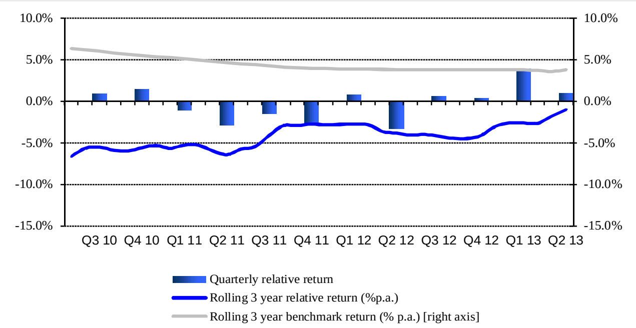
5.10 Stenham – Fund of Hedge Funds

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

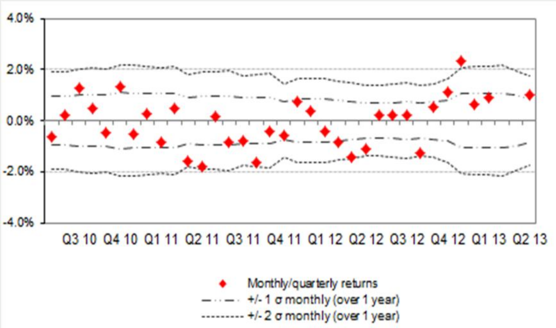
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies ▪ Established team, strong track record at selecting managers ▪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

Value (£'000)	% Fund Assets	Number of Funds Over The Period
£35,591	1.1	17

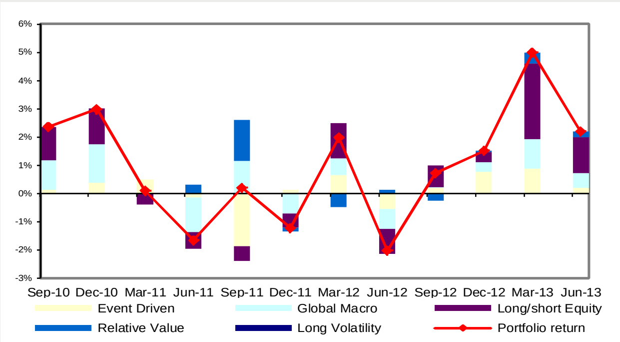
Relative returns [#1]



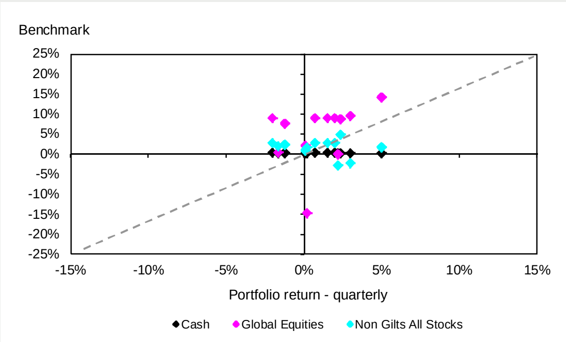
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.9	9.5	2.7
Benchmark	0.9	3.6	3.8
Relative	+1.0	+5.7	-1.1

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.
- There has been stronger performance since Stenham adopted a more positive outlook and returned to confidence in fundamentals as a driver of returns. Stenham have outperformed their target over 1 year but are still behind over 3 year measure.
- The positive contribution to performance came from Event Driven (0.2%), Long/short Equity (1.3%), Global Macro (0.5%) and Relative Value (0.2%) 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 the same over the quarter.
- Stenham have reduced the number of funds in the portfolio to 17.
- 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.

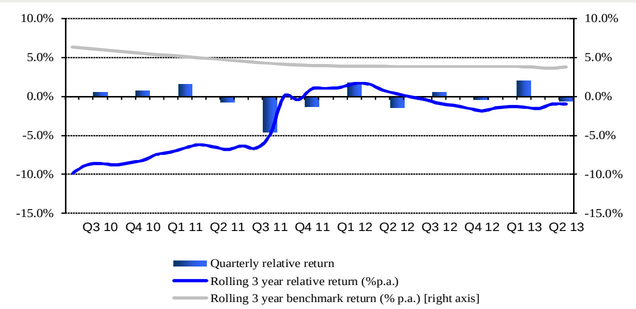
5.11 Gottex – Fund of Hedge Funds

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

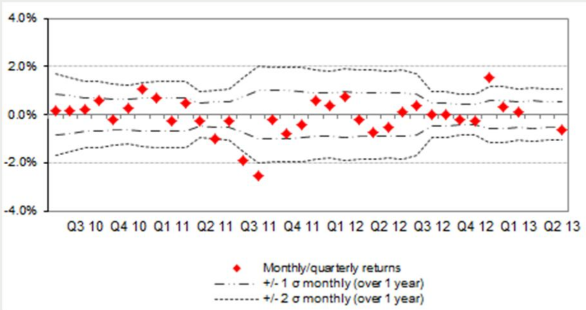
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche market neutral investment strategy ■ Established team, strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£55,178	1.8	Not available

Relative returns #1

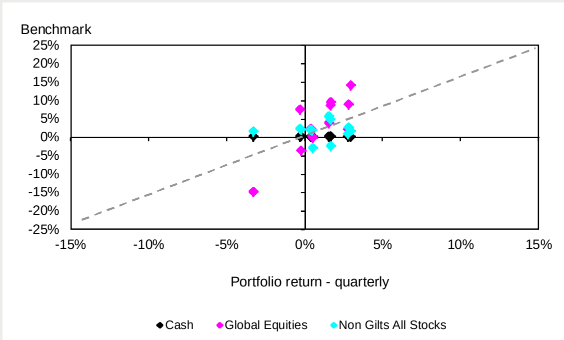


Monthly relative returns #2



Hedge fund strategies and source of return #6

Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.2	4.9	2.8
Benchmark	0.9	3.6	3.8
relative	-0.6	+1.3	-1.0

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.

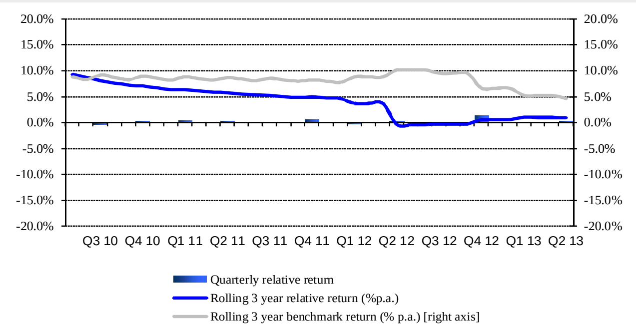
5.12 Schroder – UK Property

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

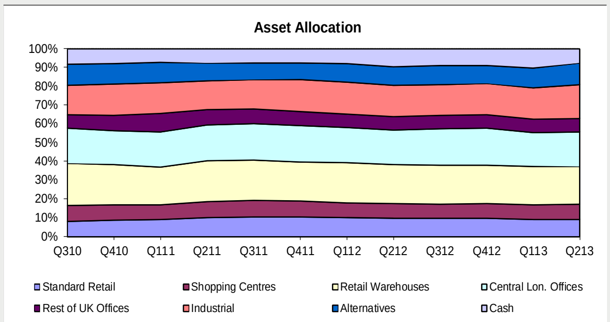
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Demonstrable track record of delivering consistent, above average performance. ▪ Team though small is exclusively dedicated to UK multi-manager property management but can draw 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
£135,421	4.4	Not available	N/A

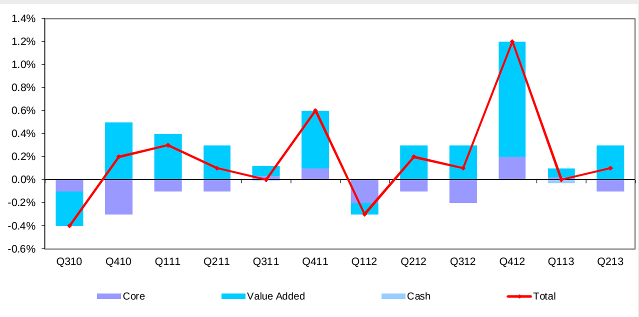
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	4.3	5.5
Benchmark	1.4	1.7	4.2
relative	+0.2	+2.6	+1.2

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, the fund slightly outperformed the benchmark. The value add style funds made the greatest positive contribution to performance, with core funds detracting from relative returns.
- The portfolio has outperformed its benchmark over all time periods and is exceeding its long term performance target.
- The West End continues to produce significant outperformance. A UK Retail Warehouse fund also performed well over the quarter.
- Transactions over the quarter directed free cash to the industrial and alternative sectors, both of which have higher than average income yields. Cash held within the portfolio is fully committed.
- Schroder note that the prospects for returns in 2013 have improved in recent months, with a revival in activity in the investment market putting downward pressure on yields (leading to rising valuations). The Investment Property Forum (IPF) consensus forecasts are now anticipating returns of 7.3% per annum over the next five years.
- Schroders maintain an underweight position to retail and are overweight in central London office and industrial property.

5.13 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 £97 million, or approximately 73% of the Fund's intended commitment of approximately £133 million. A total of £5.70 million was drawn down over the quarter, across all of the funds listed below apart from Asia Pacific and Emerging Market Real Estate 2009 and Distressed US Real Estate 2009. The draw downs commenced in September 2009.

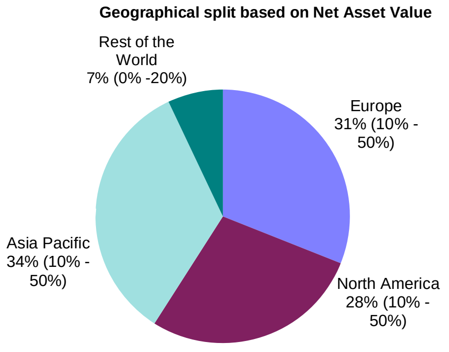
The funds invested to date have been split by Partners as follows:

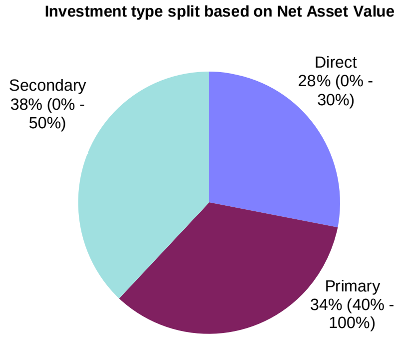
Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 June 2013 (£ Million)	Since Inception Net IRR
Asia Pacific and Emerging Market Real Estate 2009	11.98	13.27	9.2%
Direct Real Estate 2011	9.20	10.20	7.8%
Distressed US Real Estate 2009	14.43	15.08	10.2%
Global Real Estate 2008	30.37	31.94	8.9%
Global Real Estate 2011	17.39	18.06	8.7%
Real Estate Secondary 2009	13.87	15.46	13.6%
Total	**97.24**	**104.01**	**9.7%**

Source: Partners. (adjusted for cash flows), the above is Partners' provisional valuation as at 30 June 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 whilst draw-down is only 75% of the commitments. We do not believe the current positioning to be of concern given that the portfolio is diversified by region and investment type. In total, 50% of the commitments are allocated to primary investments.

Performance

Distributions since inception total £14.93m, with distributions worth £0.89m over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Over Q1 2013, the manager produced a return of 7.4% compared to the benchmark of 0.8%.

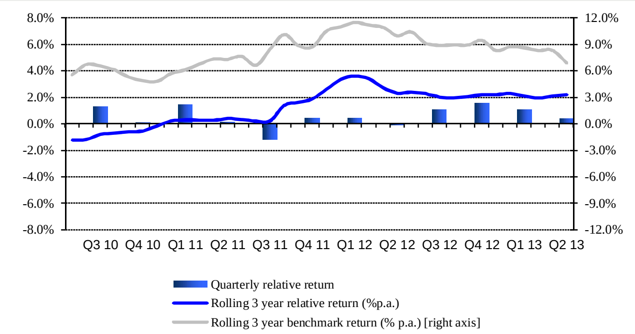
5.14 Royal London Asset Management – Fixed Interest

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

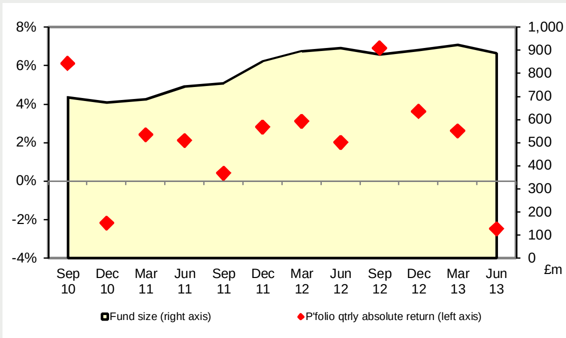
Reason in Portfolio	Reason Manager Selected
To maintain stability in the Fund as part of a diversified fixed income portfolio	■ Focused research strategy to generate added value ■ Focus research on unrated bonds provided a "niche" where price inefficiencies more prevalent ■ Product size means can be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

Value (£'000)	% Fund Assets	Number of Holdings
£171,978	5.5	N/A

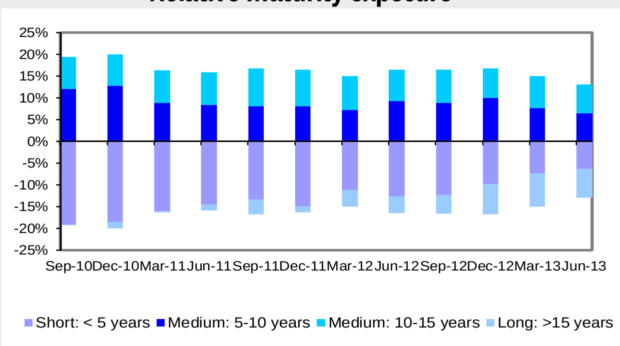
Relative returns [#1]



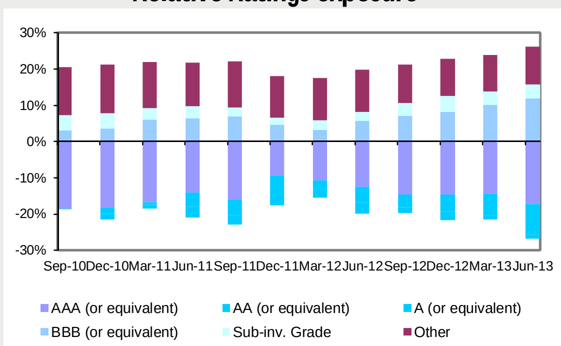
Performance v fund size [#3]



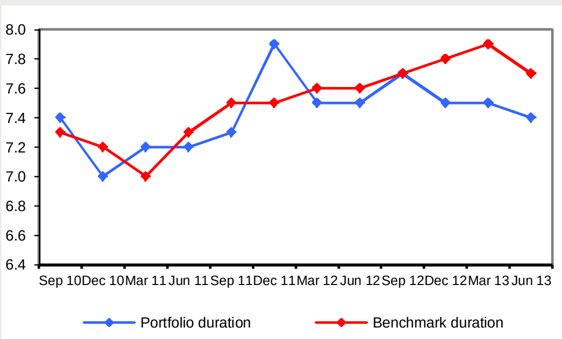
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.6	10.6	9.0
Benchmark	-2.9	6.5	6.9
relative	+0.3	+3.8	+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. 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.

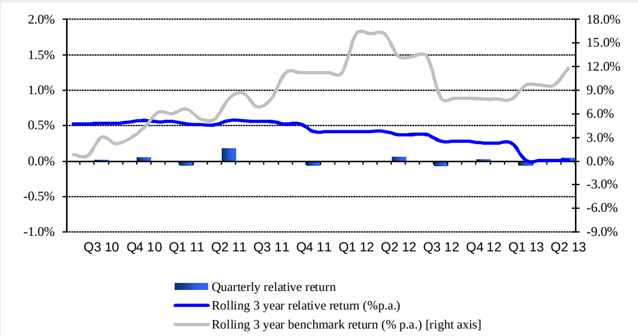
5.15 BlackRock – Passive Multi-Asset

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

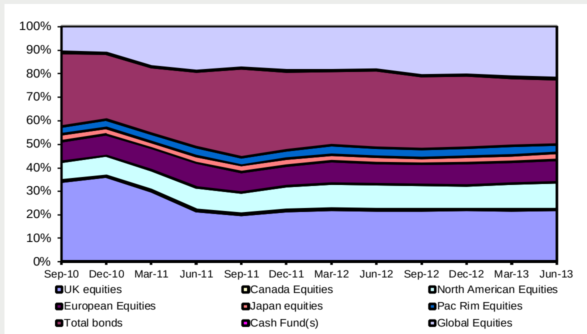
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified portfolio	■ To provide low cost market exposure across multi asset classes ■ Provide efficient way for rebalancing between bonds and equities within a single portfolio

Value (£'000)	% Fund Assets
£1,418,832	45.8

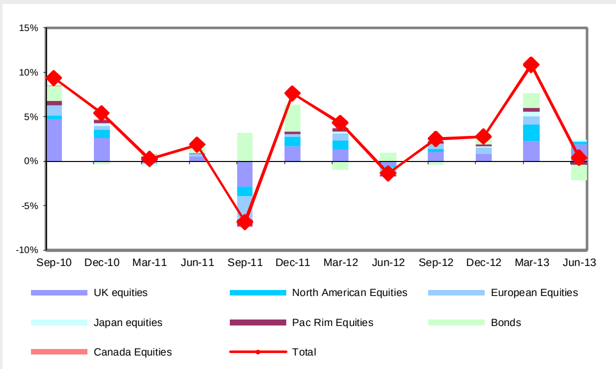
Relative returns [#1]



Asset Allocation [#5]



Contribution to absolute return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.9	14.5	11.7
Benchmark	-1.9	14.6	11.7
relative	0.0	-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.

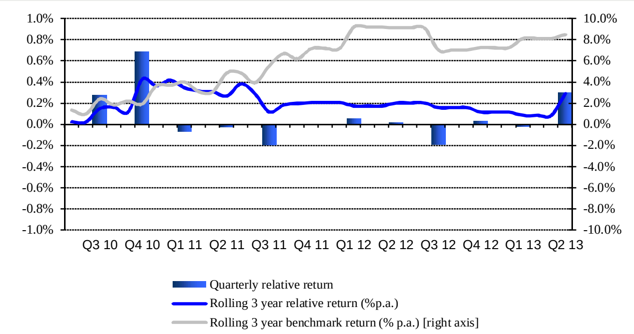
5.16 BlackRock No.2 – Property account ("ring fenced" assets)

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
£55,380	1.8

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.9	6.5	8.8
Benchmark	-1.2	6.4	8.5
relative	+0.3	+0.1	+0.3

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holding in UK Equity Futures decreased by 6.6%. This was invested in Cash (+3.6%), UK Gilts (+0.7%) and US Equities (+2.2%).
- US Gilts and UK Equity Futures generated positive absolute returns, while US Equities generated negative return.

Appendix 1: Market Events

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
UK Equities	■ Comments from the new Governor of the Bank of England (BOE), suggests that he is more concerned about stimulating economic growth rather than bringing the rate of CPI inflation down to the target level of 2%. ■ UK Equities do not look expensive by historical standards, especially after the fall in prices in June, and dividend yields compare favourably with the yield on gilts. ■ UK corporate earnings and dividends are still rising, in particular those of 'blue chip' companies. The low level of interest rates and the recent improvement in GDP figures also benefited the equity market. ■ The BOE's £80bn Funding for Lending Scheme (FLS) has been extended to January 2015. This has led to an increase in the availability of mortgage products and a reduction in the interest rate payable for fixed rate mortgages.	■ The mere suggestion by the Chairman of the US Federal Reserve that the current level of Quantitative Easing ('QE') would be reduced if the US economy continued to recover (so called 'tapering' of QE) caused a global rapid retreat in equity prices towards the end of the quarter, with the UK equity market falling to a five month low. ■ Fears surrounding the deteriorating outlook for Chinese GDP growth also weighed on investor sentiment. ■ The Chancellor's Spending Review, set out further government spending cuts in many sectors of the UK economy. ■ The FLS has also contributed to the reduction in savings rates as banks become less reliant upon savers to fund their lending activity.
Overseas Equities:		
North America	■ Underpinned by the policy of QE, the S&P 500 index rose to a record high in May and, despite the fall in June, the performance in the first half of 2013, was the best first half performance since 1998. ■ Assuming the economy continues to grow, equities do not look expensive. ■ Investors have switched billions of dollars out of cash into bond funds and equity funds on the back of an improvement in sentiment and encouraged by hopes of a sustainable economic recovery. ■ There has been a significant improvement in the US housing market.	■ The Chairman of the US Federal Reserve hinted that there might be a 'tapering' of QE later this year and that QE might come to an end in 2014 with a possible rise in interest rates in 2015. ■ These comments led to an increase in Treasury bond yields and equity markets experienced a major sell off in June. ■ Whilst US corporate earnings have been growing, this has often been the result of cost cutting measures and tax changes – revenues in many cases have been static or declining. ■ US GDP has adversely affected by a drop in federal spending, suggesting that the cuts could limit future economic growth.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Europe	▪ In September, there is a presidential election in Germany and the German Constitutional Court is expected to provide a judgement it is legal for the European Central Bank ('ECB') to buy, without limit, the government bonds of troubled Eurozone countries. ▪ In an attempt to boost economic growth, the ECB reduced the Eurozone's interest rate from 0.75% to 0.50%. ▪ The Eurozone trade surplus was €14.9bn in April compared with €13.3bn in April 2012. ▪ As widely expected, but initially denied, the 'bail out' terms imposed on Cyprus, which included losses for depositors with large cash balances, will become the template for future rescues. ▪ Leading indicators and the low level of company inventories suggest that some boost to GDP is likely to arise from re-stocking in the future.	▪ The suggestion that US QE might be tapered and concerns regarding a slowdown in China led to a fall in European equity markets. ▪ The record high Eurozone unemployment rate of 12% has reduced demand and led to downward pressure on the rate of CPI inflation, which is below the ECB's target rate of 'close to but below 2%'. ▪ Mediobanca, Italy's second largest bank, has said that 'Italy is likely to need an EU bailout within six months as the country slides deeper into crisis and a credit crunch spreads to larger companies'. ▪ Greece became the first developed country to be cut to Emerging Market status by MSCI.
Japan	▪ In his election campaign, the new Japanese prime minister, Mr Abe promised measures to stimulate the economy, measures that have been implemented following the appointment of a new Governor of the Bank Of Japan ('BOJ'). In particular, the BOJ announced that it would pursue a policy of QE amounting to U$1.4 trillion. ▪ Contrary to some expectations, money is not flowing out of Japan in search of higher yields (as has happened in the past) and it seems that, at least in part, cash is entering the real economy and the equity market.	▪ Similar measures have met with varying degrees of success since the peak of the equity market in December 1989. ▪ Although the equity market rose strongly after the announcement of the QE policy, investor confidence and sentiment were adversely affected by poor communications from the BOJ, regarding the new strategy and the reasons for believing that it would be successful in stimulating a lasting economic recovery. QE has led to the Yen appreciating sharply against the Dollar, which will hurt companies that have large export volumes. ▪ In common with the other major equity markets, the Japanese equity market fell sharply after the comments on US QE from the US Federal Reserve and on the deteriorating outlook for the Chinese economy.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Asia Pacific	■ Many Asian companies, especially those selling to domestic consumers, are continuing to prosper with profits and dividends increasing. Notwithstanding the recent slowing of the Chinese economy, the longer term story for the region, including China, has not changed. ■ A decrease in commodity prices has led to an easing of inflationary pressures in the Asian Pacific region.	■ Recent official Chinese economic statistics have given mixed signals which has led to some analysts becoming concerned that the Chinese economy could slow with severe repercussions for the global economy. ■ The flow of weak Chinese economic data has continued with falling consumer demand likely to lead to lower GDP growth, a squeeze on corporate profits and lower wage growth. ■ China's long term currency rating was cut from AA- to A+ by Fitch. The credit rating agency cited underlying structural weakness in the economy and concerns about a rise in debt levels.
Emerging Markets	■ Emerging Market Equities do not look expensive but could fall further if the US dollar continues to strengthen. Exposure to domestic consumption (and the companies that benefit from it) will be particularly important over the next year when investing in this asset class rather than investing in the index stock weightings.	■ The recent strength of the US Dollar has weakened the competitiveness of Emerging Market economies as their exports are usually priced in Dollars, and many of their currencies are still linked, officially or unofficially to the US Dollar.
Gilts	■ The US Federal Reserve has tried to calm markets by suggesting that 'tapering' still depends on the strength of US economic growth and the reduction in the rate of unemployment. ■ Mark Carney took up his appointment as Governor of the BOE on 1 July and seems likely to maintain the current low level of interest rates for some time.	■ No prospect of capital gains in most areas of the fixed income market and every expectation of capital losses over time. Government securities look particularly vulnerable to a rise in yields (fall in price), with the volatility in prices over the past few weeks giving a taste of what might happen.
Index Linked Gilts	■ Fears over rising inflation have underpinned prices.	■ Many stock offer a negative real yield, which is not appealing to investors.
Corporate Bonds	■ Given the strength of corporate balance sheets and good profitability, the returns available on corporate bonds are attractive relative to those available on gilts.	■ There is a low level of liquidity in this market at present and the reduction in credit spreads over the past few months leaves little room for any further reduction in credit spreads.
Property	■ Rental yields appear to be improving with activity centred around London. ■ Mortgage approvals in the UK rose to a three and a half year high. House prices are rising across the country with the fastest rate of growth seen in London where prices are now 5% above their previous peak.	■ There have been concerns about the increase in the level of voids and a fall in capital values in the Secondary and Tertiary markets.

Economic statistics

	Quarter to 30 June 2013			Year to 30 June 2013		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.6%	n/a	0.4%	1.4%	n/a	1.4%
Unemployment rate	7.8%	11.2%[4]	7.6%	7.8%	11.2%[4]	7.6%
Previous	*7.9%*	*11.1%*	*7.6%*	*8.1%*	*11.2%*	*8.2%*
Inflation change[2]	0.2%	0.1%	0.3%	2.9%	1.6%	1.8%
Manufacturing Purchasing Managers' Index	52.5	48.8	50.9	52.5	48.8	50.9
Previous	*48.3*	*46.8*	*51.3*	*48.4*	*45.1*	*49.7*
Quantitative Easing / LTRO [3]	£375bn	€1,018bn	$3,284bn	£375bn	€1,018bn	$3,284bn
Previous	*£375bn*	*€1,018bn*	*$3,029bn*	*£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 30 June 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 May 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.

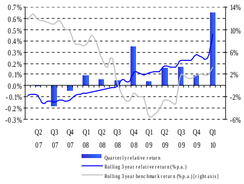
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and 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 6 and a brief description of their interpretation.

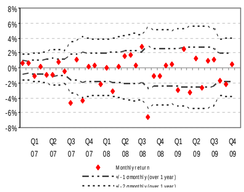
Reference | **Description**

#1



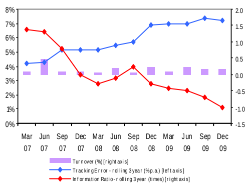
This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlaid to provide a context for relative performance, e.g. consistent underperformance in a falling market.

#2



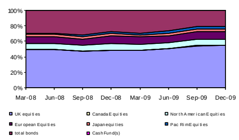
This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - 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



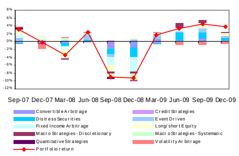
This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken 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



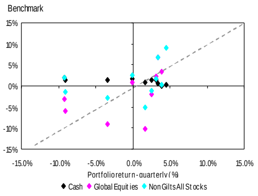
This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.

#6



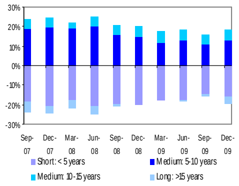
These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7



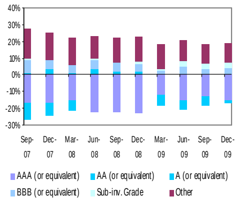
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



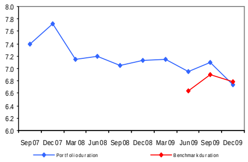
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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%
Partners	Global Property	IPD Global pooled	+2%
Cash	Internally Managed	7 day LIBID	

JLT Employee Benefits

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