Avon Pension Fund

Review for period to 30 September 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 manager 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 £71m over the third quarter of 2013 to £3,170m.

Strategy

- Equity markets were mixed over the last quarter, with the best returns from Europe (+6.9%) and the UK (+5.6%), whereas the USA and Emerging market equities produced small negative returns of -1.0% and -2.2% respectively.
- In equity markets over the last twelve months, Japan and Europe were the best performers with returns of 31.2% and 27.1% respectively. The three year equity returns remained ahead of the assumed strategic return but were lower than in last quarter’s report as the strong markets of 2010 fall out of the analysis.
- Gilt and corporate bond markets produced modest quarterly returns as gilt yields stabilised. Over the three year period returns remain ahead of the assumed strategic return.
- The Overseas Fixed Interest return has fallen to 0.1% p.a. over three years. This has been affected by rising yields within European bonds, and more recently by the view that the US Federal Reserve would start ‘tapering’ its Quantitative Easing.
- Both Hedge funds and Property remain below their assumed strategic returns but there has been some improvement over the last year.

Managers

- Returns from all managers were positive in absolute terms over the last quarter, with the exception of Genesis, who returned -0.8%. The best performing funds were SSgA European equities (7.0%) and TT UK equities (4.3%). All of the other funds returned between 0% and 3%.
- Genesis’ longer term returns fell significantly over the last quarter, with their one-year return falling from 10.2% to 3.6%, and their three-year return falling from 6.1% p.a. to 1.8% p.a. This is in line with emerging market equities as a whole and not due to the manager, who continue to meet their objective.
- TT and SSgA Euro outperformed over three years but did not meet their three-year targets. Negative relative returns over three years were produced by Blackrock (albeit not significantly) and the hedge fund managers.
- All of the other managers met their three-year target returns.
- TT made changes in Q4 2011 that have had a positive effect on performance. They have underperformed this quarter but the one and three year returns remain above the benchmark. However their three-year return of 1.3% p.a. above the benchmark is below their target of +3-4% p.a.

- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds remain 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.

Key points for consideration

- Emerging market equities have underperformed developed market equities significantly over the past three years due to slowing growth in emerging markets and improving sentiment in developed market equities.
  - This short term sentiment provides potential opportunities for long term investors such as the Fund.
- The Fund's returns over the past three years have benefited from a high allocation to equities and from its bond holdings, with both returning significantly above the assumed strategic return over this period.
  - Returns from both asset classes are unlikely to be as high over the following three years given current low bond yields and deleveraging consumers and governments.
  - The Fund's exposure to alternative asset classes and changes being made as a result of the recent strategic review should provide diversification to equities and bonds.
- Whilst the Panel has investigated the issue of the SSgA regional funds being dominated by the Avon investment and is comfortable with this position, it would be prudent to revisit this view on at least an annual basis.

2 Market Background

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

Market Statistics

Yields as at 30 September 2013	% p.a.
UK Equities	3.41
UK Gilts (>15 yrs)	3.41
Real Yield (>5 yrs ILG)	-0.04
Corporate Bonds (>15 yrs AA)	4.32
Non-Gilts (>15 yrs)	4.51

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.12	-0.23	0.24
UK Gilts (>15 yrs)	-0.02	0.51	-0.44
Index-Linked Gilts (>5 yrs)	-0.01	-0.13	-0.52
Corporate Bonds (>15 yrs AA)	-0.20	0.30	-0.63
Non-Gilts (>15 yrs)	-0.16	0.26	-0.46

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	1.3	-4.4	6.3
Index-Linked Gilts (>5 yrs)	0.5	6.6	8.3
Corporate Bonds (>15 yrs AA)	3.8	0.7	6.6
Non-Gilts (>15 yrs)	3.2	1.3	6.7

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	5.6	18.9	10.1
Overseas Equities	0.8	18.2	9.7
USA	-1.0	19.7	15.4
Europe	6.9	27.1	7.3
Japan	0.1	31.2	8.2
Asia Pacific (ex Japan)	0.6	6.9	3.2
Emerging Markets	-2.2	0.2	-1.7
Property	2.9	6.5	6.2
Hedge Funds	1.7	7.7	5.4
Commodities	-1.9	-4.4	2.7
High Yield	-3.1	8.5	8.2
Emerging Market Debt	1.2	-4.1	4.9
Senior Secured Loans	2.7	9.2	6.7
Cash	0.1	0.4	0.5

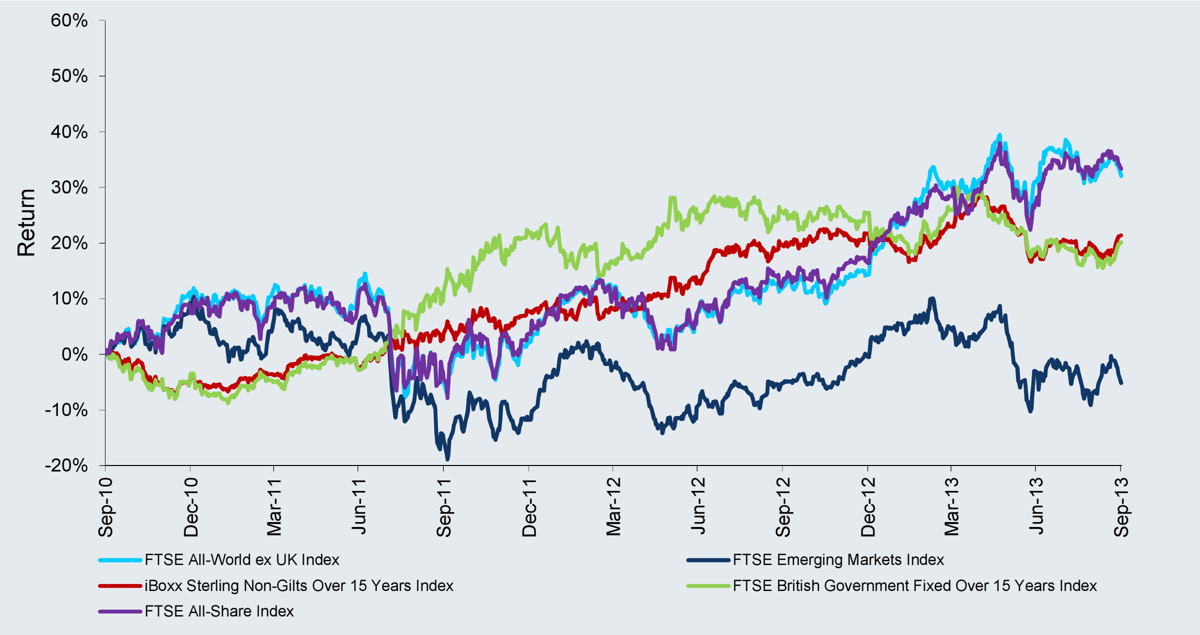
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	6.8	0.3	0.9
Against Euro	2.5	-4.7	1.2
Against Yen	5.5	26.5	6.5

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.9	3.2	3.8
Price Inflation – CPI	0.7	2.7	3.3
Earnings Inflation *	-0.1	0.7	1.5

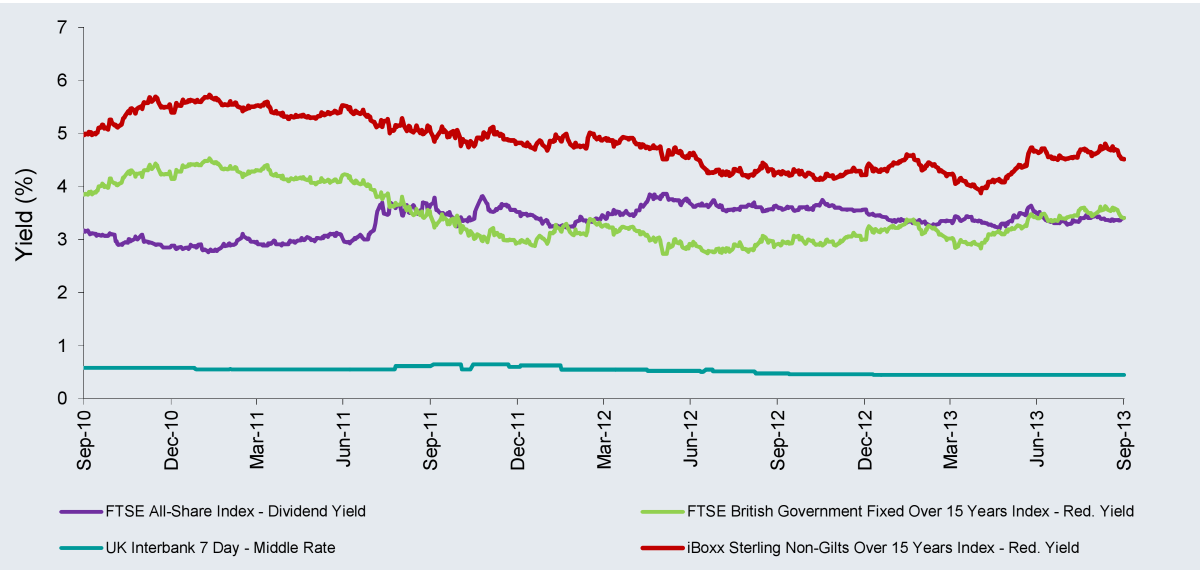
* Subject to 1 month lag

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. Apart from cash, yields fell slightly over the last quarter, following rises over the second quarter of 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 September 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	10.1	Ahead of the assumed strategic return following strong returns throughout the period apart from mid-2011. This quarter, markets have continued to rise although not as strongly as in Q2 2010 (which has fallen out of the 3-year return), hence returns are lower than in the last report.
Global Equities	8.4	9.7	
UK Gilts	4.7	6.3	Ahead of the assumed strategic return as gilt yields fell significantly during 2011. However the returns are lower than in recent reports as gilt yields have begun to rise or stabilise over the last two quarters.
Index Linked Gilts	5.1	8.3	
UK Corporate Bonds	5.6	6.0	
Overseas Fixed Interest	5.6	0.1	Behind the assumed strategic return, affected by rising yields within European bonds, and more recently by the view that the US Federal Reserve would start 'tapering' its Quantitative Easing.
Fund of Hedge Funds	6.6	2.6	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 6.5%. Low LIBOR levels could lead to continued low performance.
Property	7.4	6.2	This remains behind the assumed strategic return, but continues to improve as property prices begin to rise.

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 September 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 September 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	672,642	21.2	18.0
Overseas Equities	1,394,664	44.0	42.0
Bonds	583,735	18.4	20.0
Fund of Hedge Funds	221,232	7.0	10.0
Cash (including currency instruments)	67,391	2.1	-
Property	230,061	7.3	10.0
TOTAL FUND VALUE	**3,169,725**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £71m over the third quarter of 2013 to £3,170m. Each asset class (except for Property) contributed to the increase with the majority (£43m) coming from UK Equities.
- In terms of the asset allocation, market movements resulted in a shift towards UK equities, and away from each of the other asset classes. This moved the allocation further away from the strategic benchmark weight apart for overseas equities.
- 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	30 June 2013 Value £'000	30 June 2013 Proportion of Total %	Net new money £'000	30 September 2013 Value £'000	30 September 2013 Proportion of Total %
Jupiter	UK Equities	140,717	4.5	-	151,976	4.8
TT International	UK Equities	163,649	5.3	-	171,207	5.4
Invesco	Global ex-UK Equities	221,159	7.1	-	223,388	7.0
Schroder	Global Equities	201,966	6.5	-	203,330	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	101,947	3.3	-	105,517	3.3
Genesis	Emerging Market Equities	147,236	4.8	-	146,181	4.6
MAN	Fund of Hedge Funds	64,160	2.1	-	63,607	2.0
Signet	Fund of Hedge Funds	65,478	2.1	-	65,903	2.1
Stenham	Fund of Hedge Funds	35,591	1.1	-	35,966	1.1
Gottex	Fund of Hedge Funds	55,178	1.8	-	55,755	1.8
BlackRock	Passive Multi-asset	1,418,832	45.8	-	1,430,170	45.2
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	55,380	1.8	-5,500	51,032	1.6
RLAM	Bonds	171,978	5.5	-	196,005	6.2
Schroder	UK Property	135,421	4.4	-	139,246	4.4
Partners	Property	104,279	3.4	500	97,169	3.1
Record Currency Mgmt	Dynamic Currency Hedging	-3,609	-0.1	-	7,877	0.2
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	6,832	0.2	-	7,426	0.2
Internal Cash	Cash	12,949	0.4	5,000	17,970	0.6
Rounding		-	-	-	-	-
TOTAL		**3,099,143**	**100.0**	**0**	**3,169,725**	**100.0**

Source: Avon Pension Fund Data provided by WM Performance Services

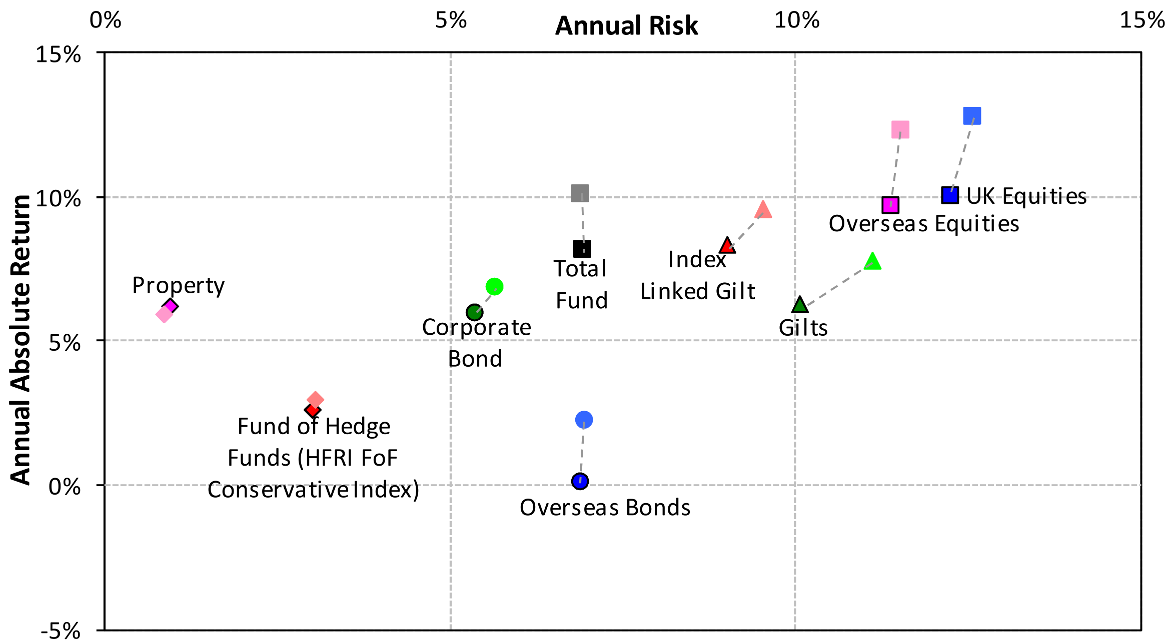
4 Performance Summary

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 September 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 14.

3 Year Risk v 3 Year Return to 30 September 2013

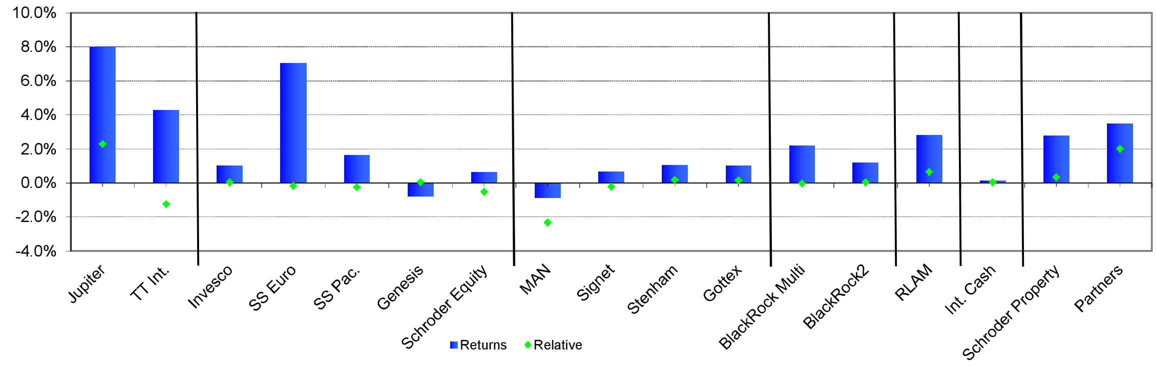


- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- Other than a small increase in the property return, the three year returns have fallen across all asset classes. This was partly due to Q3 2010 falling out of the analysis, in which there were strong bond returns and a rebound in equity markets following their falls of Q2 2010.
- Equities remain the best performing asset class over three years and continued to post positive returns over the last quarter, particularly UK equities. Despite this, the three-year equity returns reduced by 2.7% p.a. for both UK and overseas.
- The Property return has increased slightly.
- Hedge funds continue to produce steady returns, improving to 6.5% over the last year compared to 2.6% in the year to September 2012 and a negative return in 2011.
- Gilts, index-linked and corporate bonds 3-year returns fell as yields stabilised over the last quarter, leading to a low return.
- In terms of risk, the three-year volatility has decreased for each of the asset classes except property as the volatile returns of 2010 are replaced by steadier returns.
- 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.

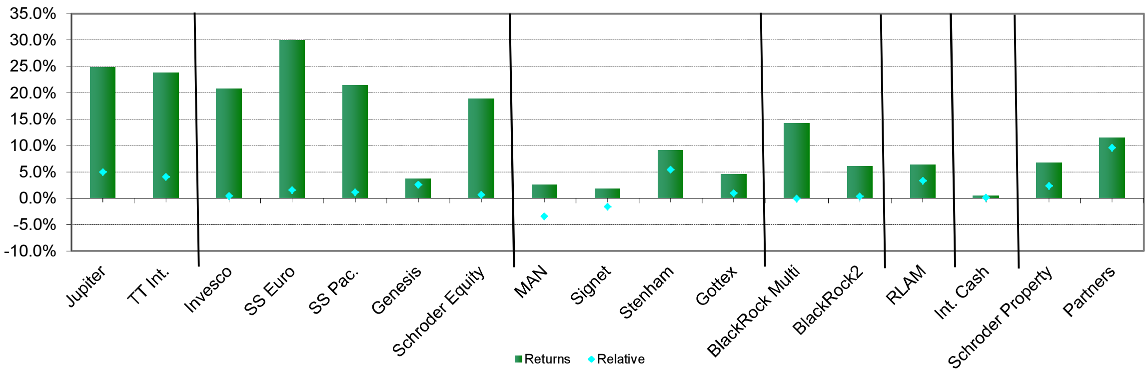
Aggregate manager performance

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

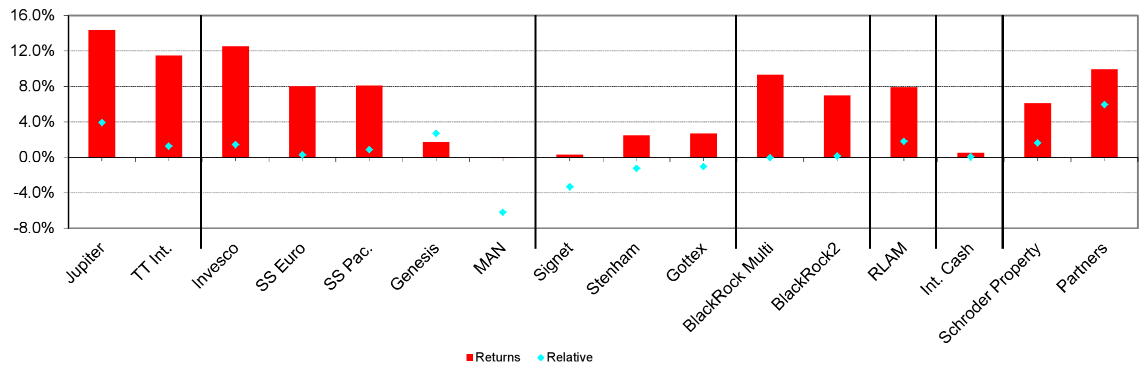
Absolute and relative performance - **Quarter to 30 September 2013**



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



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

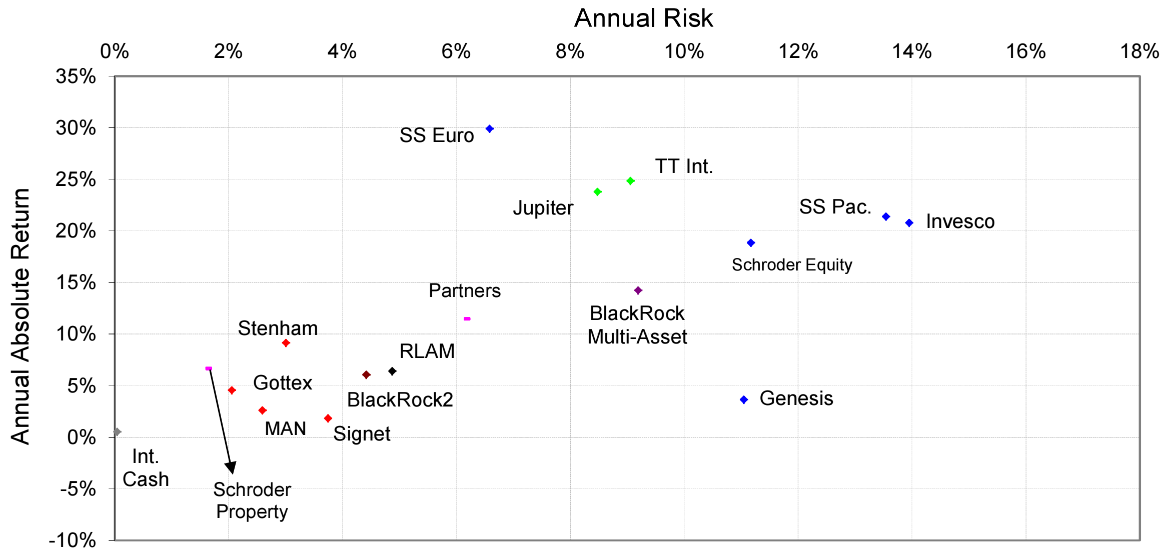
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.3	+5.0	+3.9	Target met
TT International	-1.3	+4.1	+1.3	Target not met
Invesco	0.0	+0.5	+1.4	Target met
SSgA Europe	-0.2	+1.5	+0.3	Target not met
SSgA Pacific	-0.3	+1.2	+0.9	Target met
Genesis	0.0	+2.6	+2.7	Target met
Schroder Equity	-0.5	+0.7	N/A	N/A
Man	-2.3	-3.4	-6.2	Target not met
Signet	-0.2	-1.6	-3.3	Target not met
Stenham	+0.2	+5.4	-1.2	Target not met
Gottex	+0.2	+1.0	-1.0	Target not met
BlackRock Multi - Asset	0.0	-0.1	-0.1	Target not met
BlackRock 2	0.0	+0.4	+0.1	Target met
RLAM	+0.6	+3.4	+1.8	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.3	+2.3	+1.6	Target met
Partners Property	+2.0	+9.6	+6.0	Target met

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

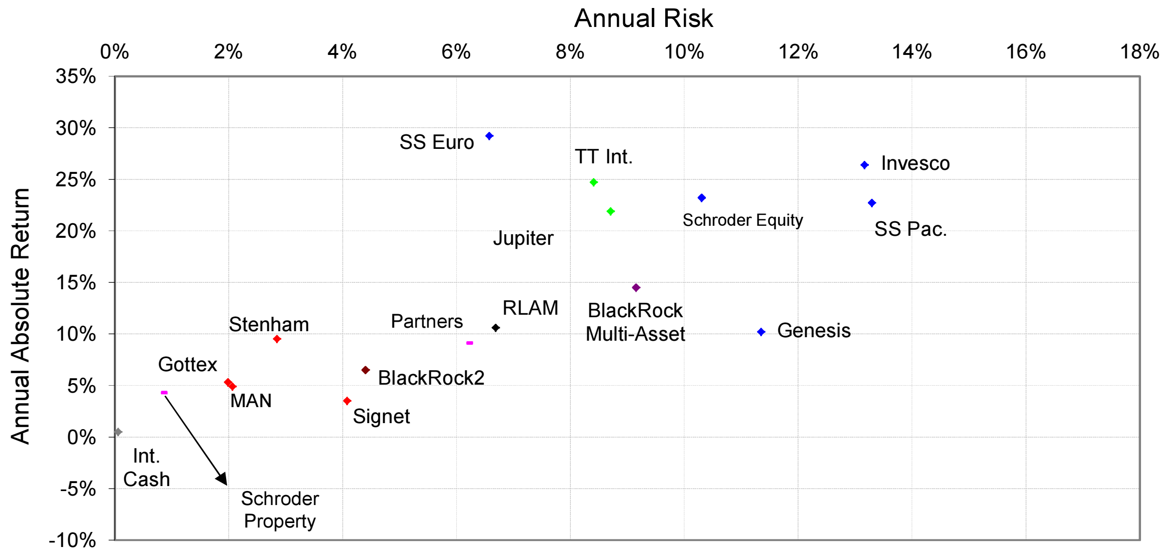
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2013 of each of the funds. We also show the same chart, but with data to 30 June 2013 for comparison.

1 Year Risk v 1 Year Return to 30 September 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 June 2013

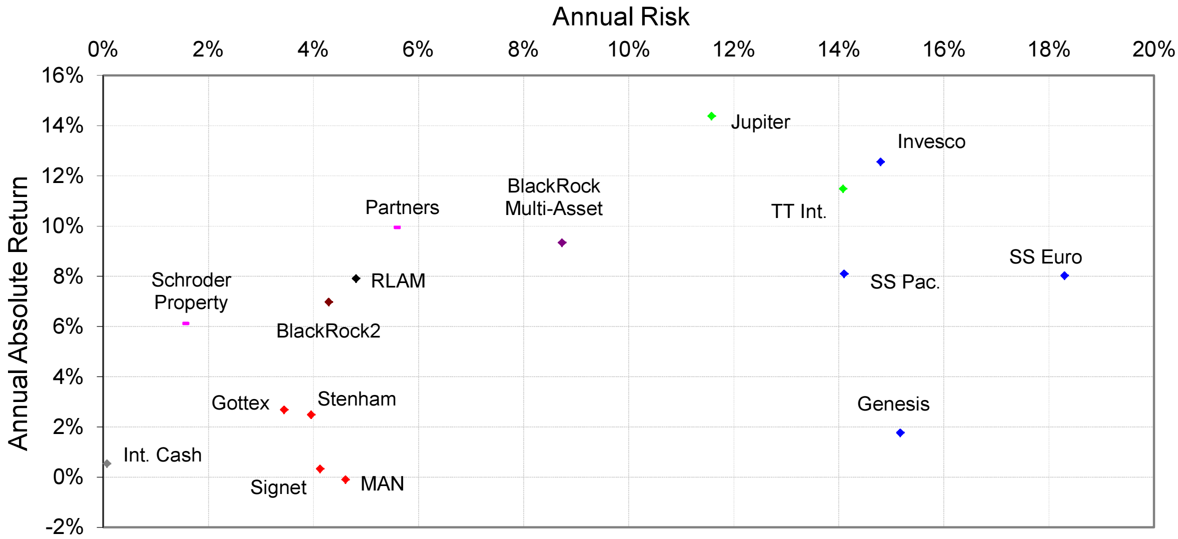


Source: Data provided by WM Performance Services

- 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 remained above 20%, apart from Schroders.
- The Genesis emerging equity return has fallen from 10.2% to 3.6%, with RLAM's one-year return falling from 10.6% to 6.4%.
- Each of the hedge fund managers has seen their one-year returns decrease.
- The one year-risk figures have generally increased slightly, with the notable exception of RLAM corporate bonds.

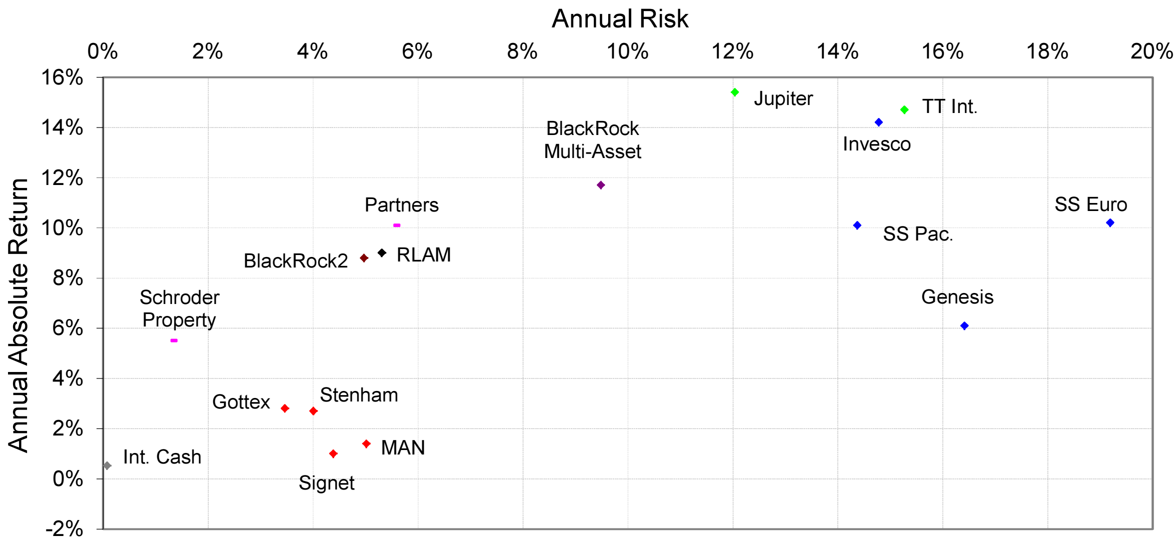
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2013 of each of the funds. We also show the same chart, but with data to 30 June 2013 for comparison.

3 Year Risk v 3 Year Return to 30 September 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 June 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
- There has been a fall in the three-year returns for all managers except Schroder Property.
- Most notable are the equity funds, in particular TT's return has fallen from 14.7% p.a. to 11.5% p.a., and Genesis' return has fallen from 6.1% p.a. to 1.8% p.a.
- The three-year risk figures have fallen slightly for all managers, again except for Schroder Property. 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 one year period are from the equity and Blackrock Multi-asset funds. The one-year return from all managers was positive in absolute terms.
- Over three years, the best performer remains Jupiter at 14.4% p.a. Hedge fund returns remain the lowest at 0-3% p.a.
- Generally returns were broadly consistent with those seen last quarter, with the exception of Genesis which has seen its one and three year return fall sharply as a result of underperformance from the emerging markets relative to developed equities.
- The Fund of Hedge Fund and property managers continue to provide low volatility over both the 1 and three year period. However, over the longer three year period they have each underperformed their assumed strategic return. Each of the equity-based funds has outperformed the assumed strategic return over three 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

- Emerging market equities have underperformed developed market equities significantly over the past three years due to slowing growth in emerging markets and improving sentiment in developed market equities.
  - This short term sentiment provides potential opportunities for long term investors such as the Fund.
- The Fund's returns over the past three years have benefited from a high allocation to equities and from its bond holdings, with both returning significantly above the assumed strategic return over this period.
  - Returns from both asset classes are unlikely to be as high over the following three years given current low bond yields and deleveraging consumers and governments.
  - The Fund's exposure to alternative asset classes and changes being made as a result of the recent strategic review should provide diversification to equities and bonds.
- Whilst the Panel has investigated the issue of the SSgA regional funds being dominated by the Avon investment and is comfortable with this position, it would be prudent to revisit this view on at least an annual basis.

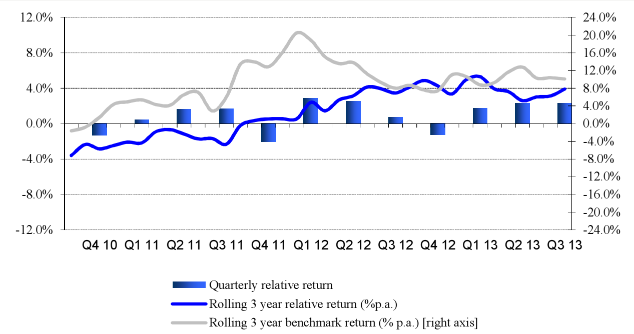
5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

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

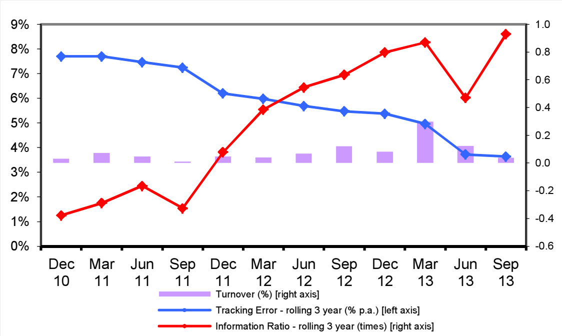
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear and robust approach to evaluating SRI factors within the investment process ■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities ■ Corporate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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£151,976	4.8	3.6%	N/A

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	8.0	24.8	14.4
Benchmark	5.6	18.9	10.1
Relative	+2.3	+5.0	+3.9

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

Comments:

- Jupiter are outperforming their 3 year performance target.
- The Fund's allocation to Cash (5.1%) has decreased slightly 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 Q3 2013, Jupiter was significantly underweight in Oil & Gas, Consumer Goods and Basic Materials, with significant overweight positions in Consumer Services and Industrials.
- The rise in information ratio over the last quarter is a result of their three-year relative return increasing from +2.3% p.a. to +3.9% p.a. Tracking error has continued to fall.

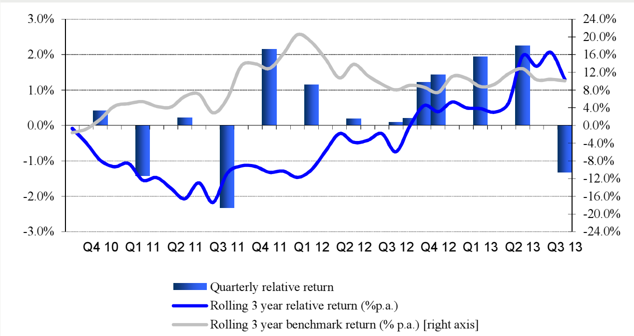
5.2 TT International – UK Equities (Unconstrained)

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

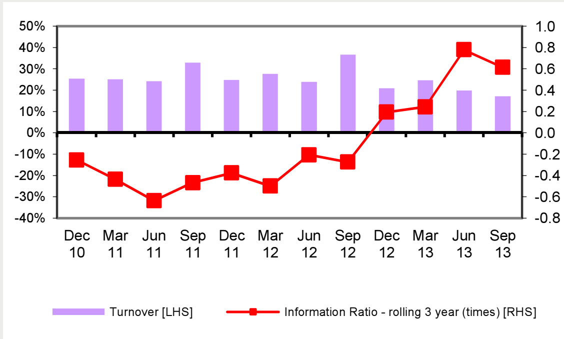
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Favoured the partnership structure that aligns managers and Fund's interests. ■ Focussed investment activity and manages its capacity ■ Clear, robust stock selection and portfolio construction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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£171,207	5.4	2.5%	60

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.3	23.8	11.5
Benchmark	5.6	18.9	10.1
Relative	-1.3	+4.1	+1.3

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

Comments:

- The Fund has underperformed this quarter but the one and three year returns remain above the benchmark.
- The Fund held an overweight position in Industrials by 4.1% and was underweight in Oil & Gas and Utilities, by 2.5% and 2.3% respectively, at the end of the quarter.
- Turnover, over the third quarter, decreased to 17.2% compared to the last quarter's number of 19.8%. 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 2.48%. However, there has been a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio decreased by 0.16 to 0.61, demonstrating a decline in the relative return.

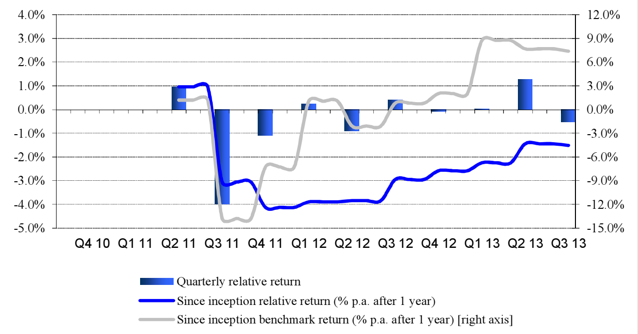
5.3 Schroder – Global Equity Portfolio (Unconstrained)

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
£203,330	6.4	N/A	N/A

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.6	18.8	N/A
Benchmark	1.2	18.0	N/A
Relative	-0.5	+0.7	N/A

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

Comments:

- The return was below the benchmark over the quarter but above benchmark over the 1 year period.
- The belief that the US Federal Reserve would imminently taper its quantitative easing programme dampened investors' risk appetite in August, causing emerging markets equities to fall in particular. This hurt their stocks exposed to certain emerging market countries, which was the main contributor to the fund's underperformance.
- The strongest positive contributor was energy stocks, helped by the rise in oil price following the escalation of the Syrian conflict. These rises were concentrated in North America and the UK.
- Information technology was the largest detractor at a sector level, with Microsoft underperforming due to slower desktop sales and weaker profitability in its Windows division.
- 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).
- Overall Schroder expect the global economy to improve as we go through 2013 and into 2014. They think that the slight slowdown in emerging market growth might ultimately be positive as it will help put the region on a more sustainable growth path so that it can fulfil its long-term potential.

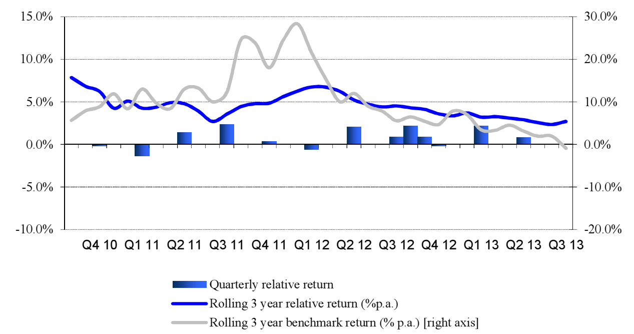
5.4 Genesis Asset Managers – Emerging Market Equities

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

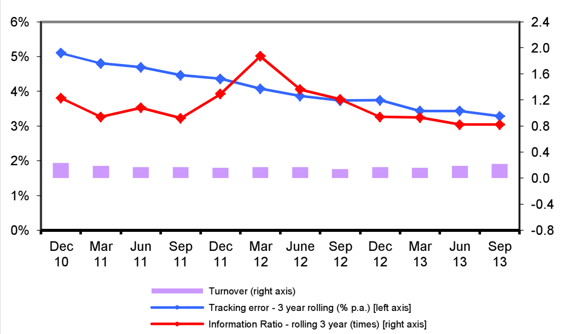
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Long term investment approach which takes advantage of evolving growth opportunities ▪ Niche and focussed expertise in emerging markets ▪ Partnership structure aligned to delivering performance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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£146,181	4.6	3.3%	165

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.8	3.6	1.8
Benchmark	-0.8	1.0	-0.9
relative	0.0	+2.6	+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 three year tracking error (proxy for risk relative to the benchmark) declined slightly to 3.3% in Q3 2013. The three year information ratio (risk adjusted return), has remained unchanged to 0.8.
- The allocation to Cash (1.9%) increased slightly compared to the previous quarter (1.1%).
- On an industry basis, the Fund is overweight Consumer Staples (+6.7%), Materials (+4.9%), Health Care (+2.6%), Information Technology (+1.9%) and Financials (+0.7%). The Fund is underweight to Consumer Discretionary (-5.3%), Energy (-4.5%), Telecom Services (-4.4%), Industrials (-2.3%) and Utilities (-2.3%).

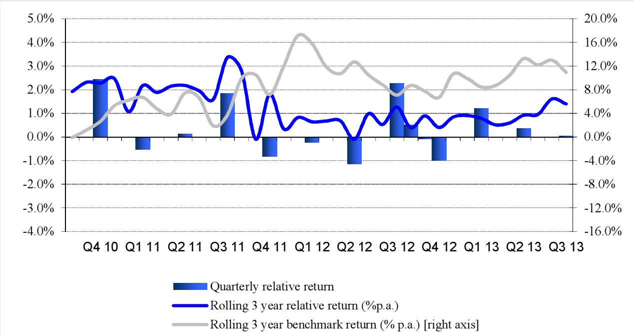
5.5 Invesco – Global ex-UK Equities (Enhanced Indexation)

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

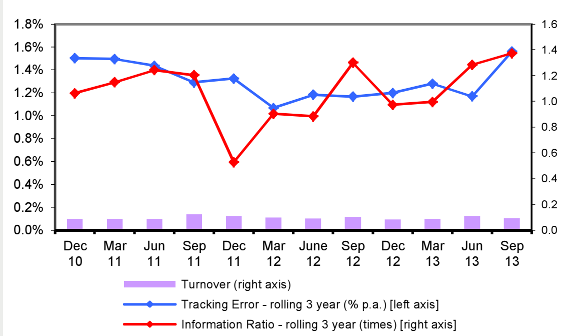
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis ▪ One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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£223,388	7.0	1.6%	350

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.0	20.8	12.6
Benchmark	1.0	20.2	11.0
relative	0.0	+0.5	+1.4

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

Comments:

- Over the last quarter, sector selection contributed positively but this was offset by stock selection.
- The absolute volatility has increased to 11.0% at the end of the third quarter of 2013 compared to 9.0% at the end of the second quarter of 2013, reflecting the increase in market volatility over the period.
- The turnover for this quarter of 9.3% decreased from 11.1% in the previous quarter. The number of stocks (350) 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 except for Financials and Industrials.
- Despite performing in line with the benchmark over the quarter, Invesco's three year performance has moved further above the benchmark and remains above their outperformance target.

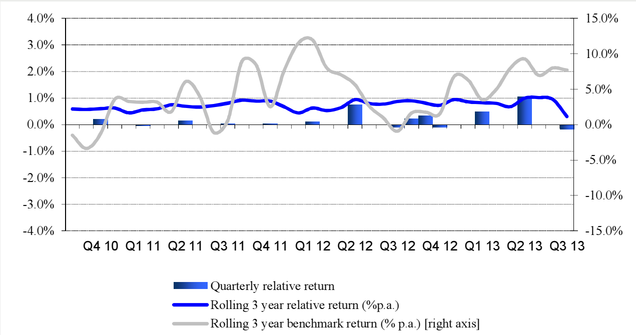
5.6 SSgA – Europe ex-UK Equities (Enhanced Indexation)

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

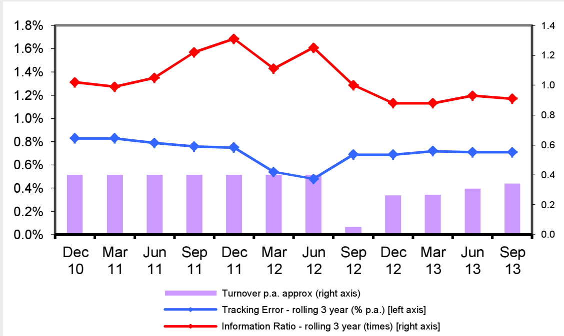
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£37,453	1.1	N/A	212

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	7.0	29.9	8.0
Benchmark	7.2	27.9	7.7
relative	-0.2	+1.5	+0.3

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.
- The total pooled fund size on 30 September 2013 was £37.52m, increasing 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 30.7% to 34.2%, 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.

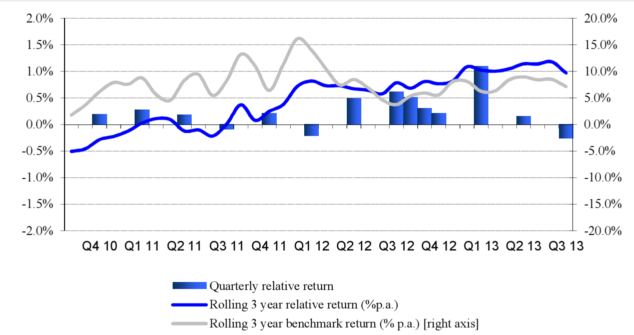
5.7 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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

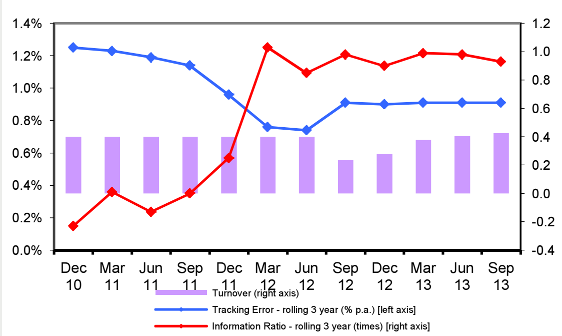
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£68,064	2.2	N/A	N/A

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	21.4	8.1
Benchmark	1.9	20.0	7.2
Relative	-0.3	+1.2	+0.9

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 (55.8%) is invested in Japan.
- The pooled fund size is £69.90m of which Avon hold £68.06m. This is a higher proportion of the fund than as at the end of June 2013, but again the conclusion was that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- Although the fund underperformed over the quarter, it remains ahead over the one and three year periods.
- The tracking error and turnover information has not been received in time for this initial report. The tracking chart above is from our last report.
- Turnover has further increased to 42.6% after an increase in the previous quarter as well.
- The information ratio (+0.93) has slightly decreased compared to the previous quarter (+0.98).
- The tracking error of the fund has remained the same as it was last quarter.

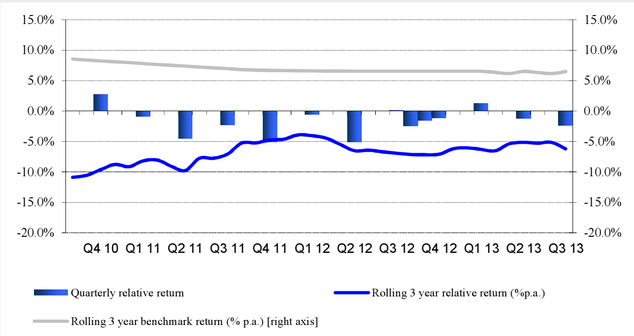
5.8 MAN – Fund of Hedge Funds

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

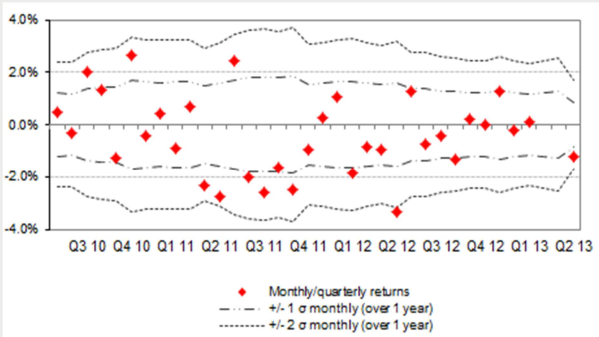
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Institutional infrastructure and resources (not common within hedge funds at time of appointment) ■ Resources to provide multi-strategy investment approach ■ Higher return and volatility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

Value (£'000)	% Fund Assets	Number of Funds Over Quarter	
£63,607	2.0	46	

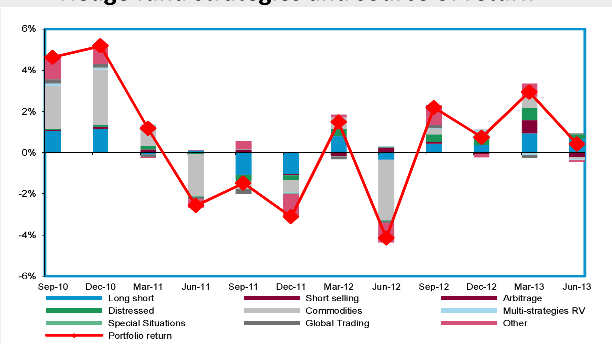
Relative returns [#1]



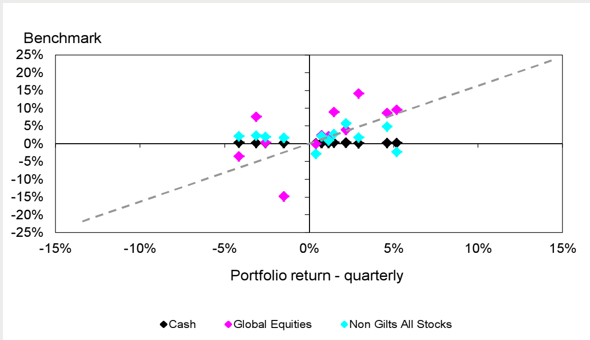
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.9	2.6	-0.1
Benchmark	1.5	6.2	6.5
relative	-2.3	-3.4	-6.2

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

- Commentary on the performance drivers from MAN has not been received in time for this report. The 'source of return' and monthly returns chart above are not updated.

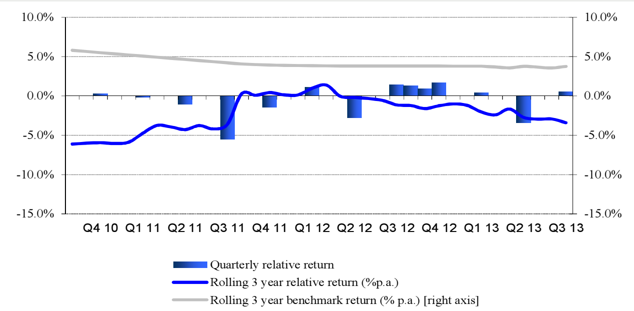
5.9 Signet – Fund of Hedge Funds

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

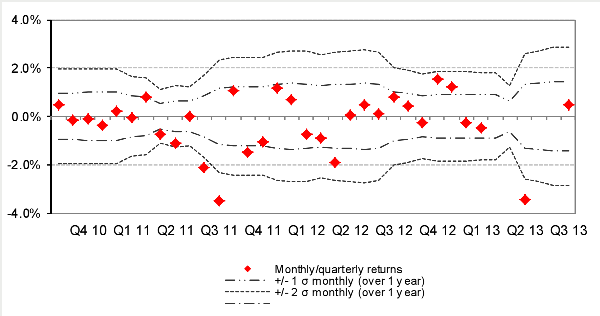
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche fixed income strategy focus ■ Established team with strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£65,903	2.1	N/A

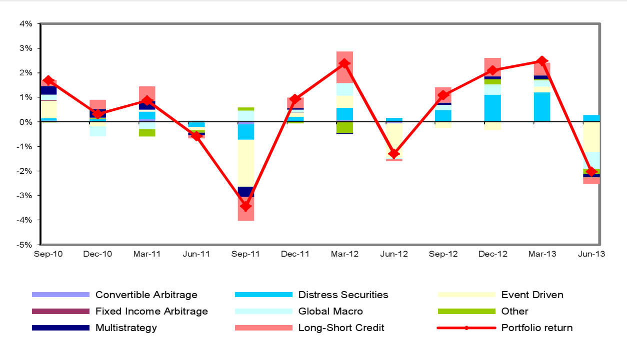
Relative returns [#1]



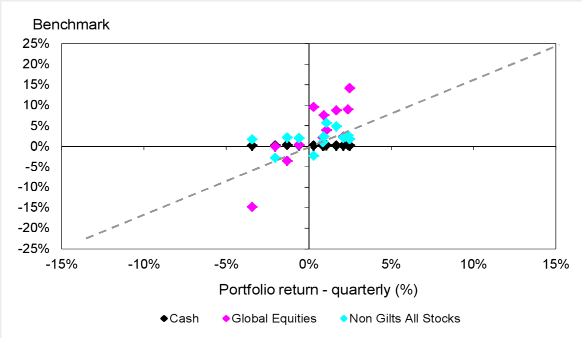
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.7	1.8	0.3
Benchmark	0.9	3.5	3.8
relative	-0.2	-1.6	-3.3

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

Comments:

- Commentary on the performance drivers from Signet has not been received in time for this report. The 'source of return' chart above is not updated.
- 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.

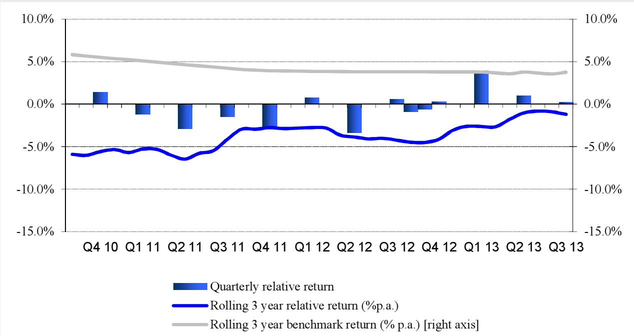
5.10 Stenham – Fund of Hedge Funds

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

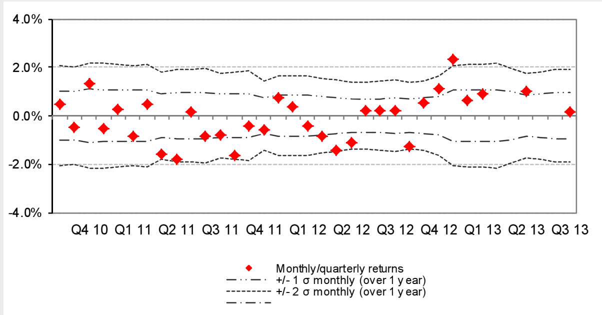
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies ▪ Established team, strong track record at selecting managers ▪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

Value (£'000)	% Fund Assets	Number of Funds Over The Period	
£35,966	1.1	17	

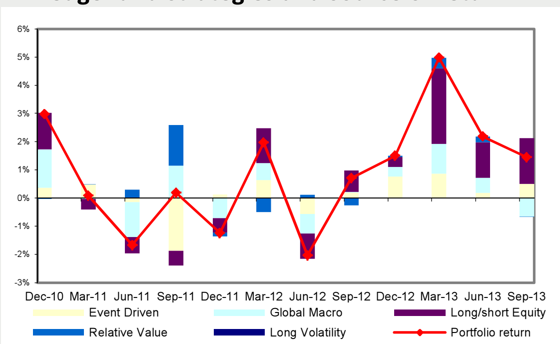
Relative returns [#1]



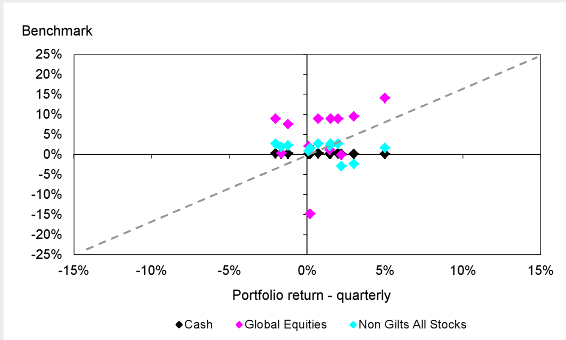
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.1	9.1	2.5
Benchmark	0.9	3.5	3.8
Relative	+0.2	+5.4	-1.2

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 one year but are still behind over the three year measure.
- The positive contribution to performance came from Event Driven (0.5%) and Long/short Equity (1.6%) strategies. Long Volatility was neutral while Global Macro (-0.7%) and Relative Value (-0.01%) contributed negatively.
- The allocation to the Global Macro and Long / Short Equity strategies made up 70.0% of the total Fund allocation. The allocation to Cash remained the same over the quarter.
- The number of funds have remained the same at 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.

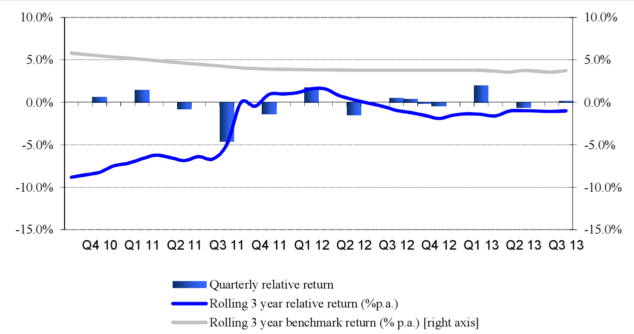
5.11 Gottex – Fund of Hedge Funds

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

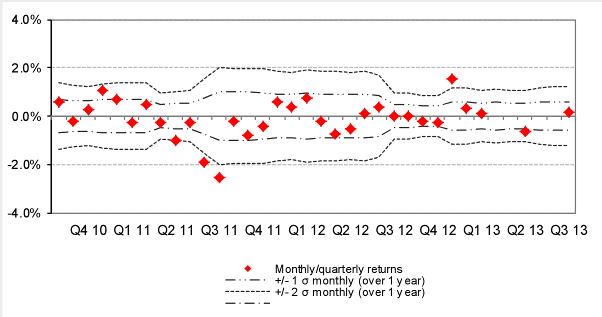
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche market neutral investment strategy ■ Established team, strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£55,755	1.8	Not available

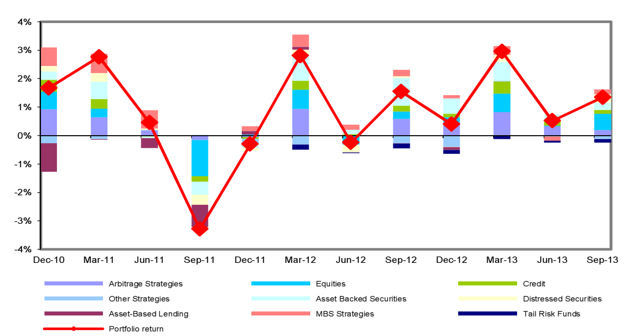
Relative returns [#1]



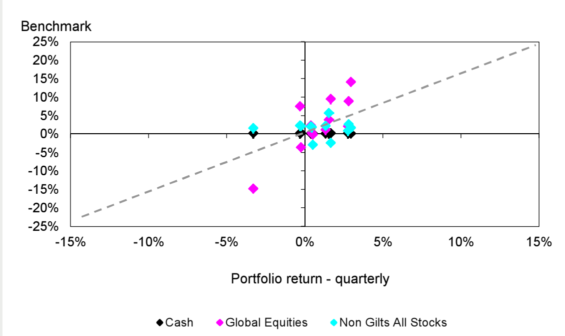
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.0	4.5	2.7
Benchmark	0.9	3.5	3.8
relative	+0.2	+1.0	-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.

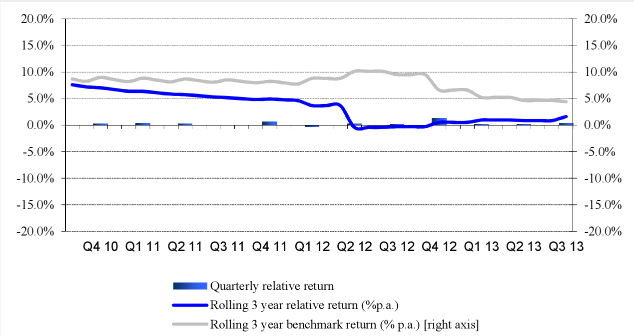
5.12 Schroder – UK Property

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

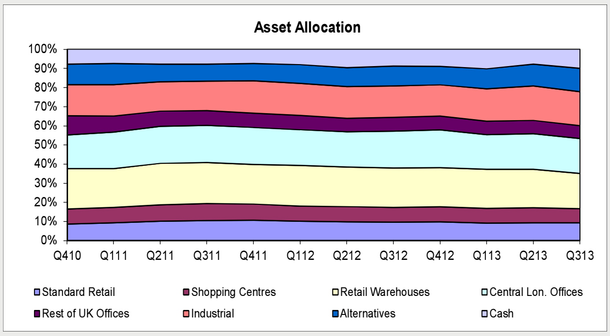
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Demonstrable track record of delivering consistent, above average performance. ■ Team though small is exclusively dedicated to UK multi-manager property management but can draw 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
£139,246	4.4	Not available	16

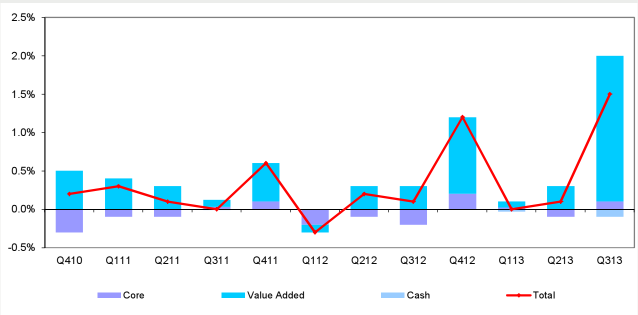
Relative returns #1



Asset Allocation #5



Contribution to relative return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.8	6.7	6.1
Benchmark	2.4	4.2	4.4
relative	+0.3	+2.3	+1.6

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. As last quarter, the value add style funds made the greatest positive contribution to performance, with core funds detracting from relative returns.
- The West End continues to produce significant outperformance due to strong investment demand and moderate rental growth in the West End office market.
- The portfolio has outperformed its benchmark over all time periods and is exceeding its long term performance target.
- Cash in the portfolio was higher than normal at the quarter-end following redemption of the M&G UK Property Fund shortly before the quarter end. They plan to allocate the proceeds into Metro PUT, a new product targeting mispriced smaller assets. The holding of cash in anticipation of this purchase detracted slightly from relative returns over the quarter.
- They continue to be overweight in the office and industrial sectors and underweight in retail, although they expect opportunities to emerge in the retail sector in the coming years away from traditional high street shops.

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 £105 million, or approximately 59% of the Fund's intended commitment of approximately £178 million. A total of £6.34 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 Global Real Estate 2008. The draw downs commenced in September 2009.

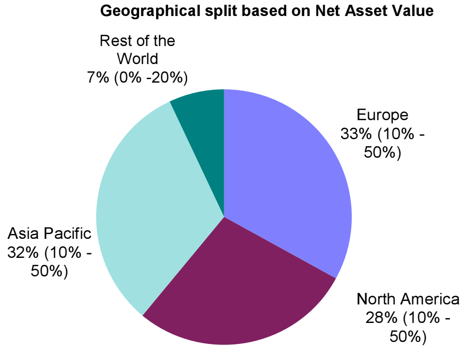
The funds invested to date have been split by Partners as follows:

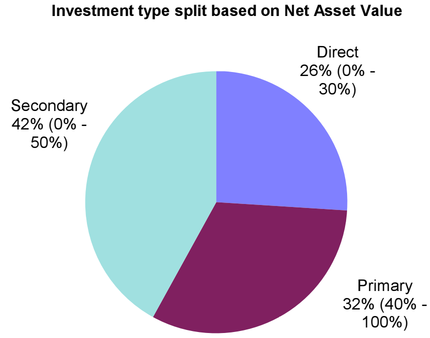
Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 September 2013 (£ Million)	Since Inception Net IRR
Real Estate Secondary 2009	14.15	14.91	11.9
Global Real Estate 2008	30.37	28.04	8.2
Asia Pacific and Emerging Market Real Estate 2009	11.98	12.25	7.7
Distressed US Real Estate 2009	14.76	13.33	10.2
Global Real Estate 2011	19.09	18.47	7.1
Direct Real Estate 2011	9.47	10.02	7.6
Real Estate Secondary 2013	3.40	3.22	n/a
Global Real Estate 2013	0.62	0.59	n/a
Total	**103.58**	**100.30**	**8.6**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 30 September 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 30 September 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. Europe has increased by 2%, with Asia Pacific reducing by 2%.

The exposure to Primary has increased by a further 2% this quarter, but continues to be below the guidelines. Short-term deviation from the allocation restrictions in place are expected whilst the amount drawn-down is still significantly below target and we do not believe the current positioning to be of concern. In total, 50% of the commitments are allocated to primary investments.

Performance

Distributions since inception total £20.81m, with distributions worth £5.88m over the most recent quarter. Performance of Partners is lagged by 1 quarter. Over Q2 2013, the manager produced a return of 3.5% compared to the benchmark of 1.4%.

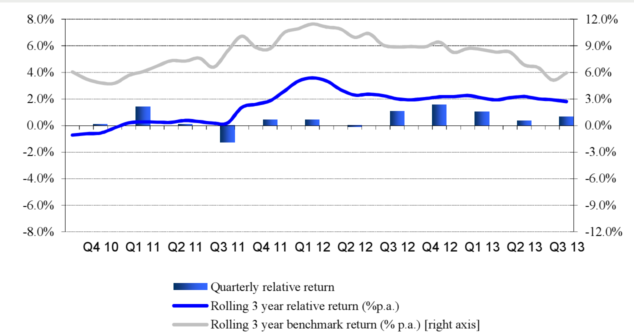
5.14 Royal London Asset Management – Fixed Interest

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

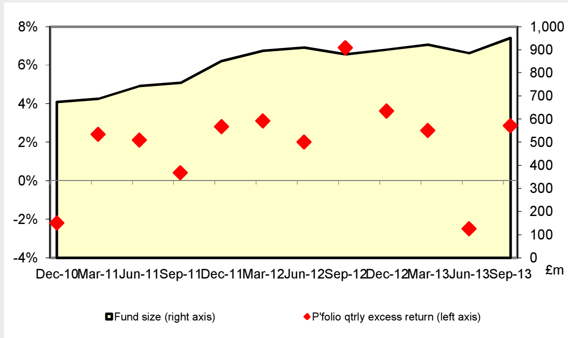
Reason in Portfolio	Reason Manager Selected
To maintain stability in the Fund as part of a diversified fixed income portfolio	■ Focused research strategy to generate added value ■ Focus research on unrated bonds provided a "niche" where price inefficiencies more prevalent ■ Product size means can be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

Value (£'000)	% Fund Assets	Number of Holdings
£196,005	6.2	266

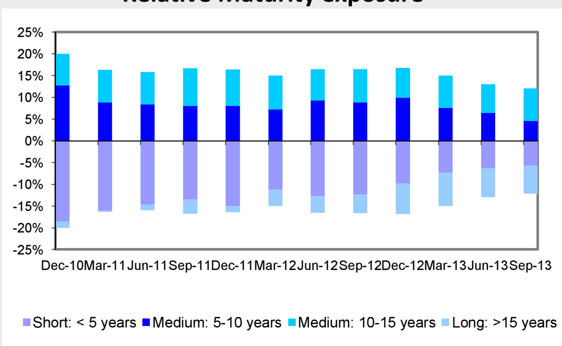
Relative returns #1



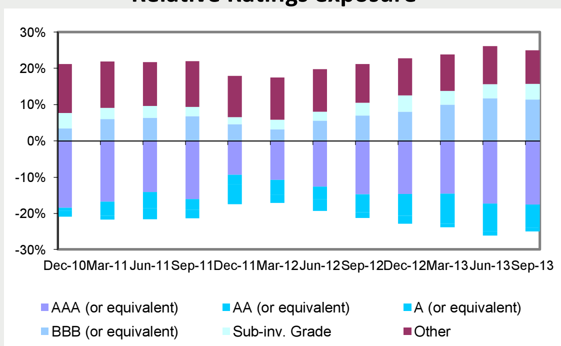
Performance v fund size #3



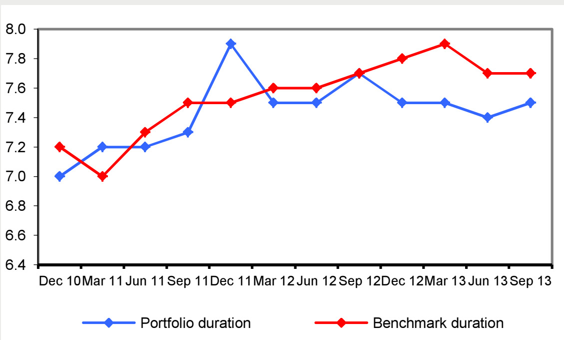
Relative Maturity exposure #8



Relative Ratings exposure #9



Duration #10



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.8	6.4	7.9
Benchmark	2.2	3.0	6.0
relative	+0.6	+3.4	+1.8

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.

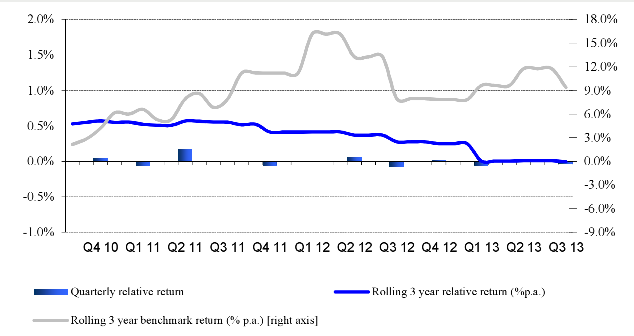
5.15 BlackRock – Passive Multi-Asset

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

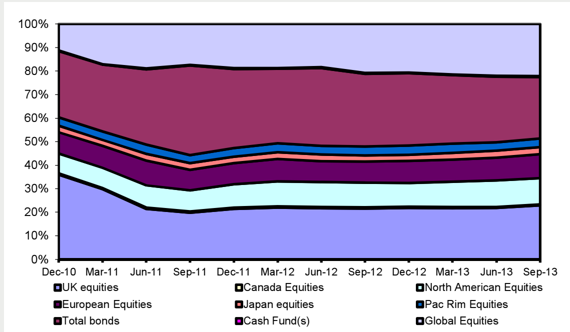
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified portfolio	■ To provide low cost market exposure across multi asset classes ■ Provide efficient way for rebalancing between bonds and equities within a single portfolio

Value (£'000)	% Fund Assets
£1,430,170	45.2

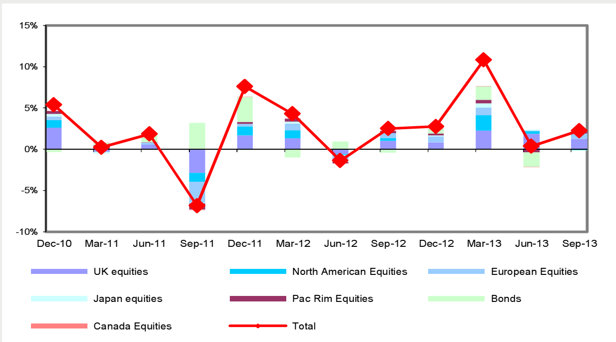
Relative returns [#1]



Asset Allocation [#5]



Contribution to absolute return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.2	14.2	9.3
Benchmark	2.2	14.3	9.4
relative	0.0	-0.1	-0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

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

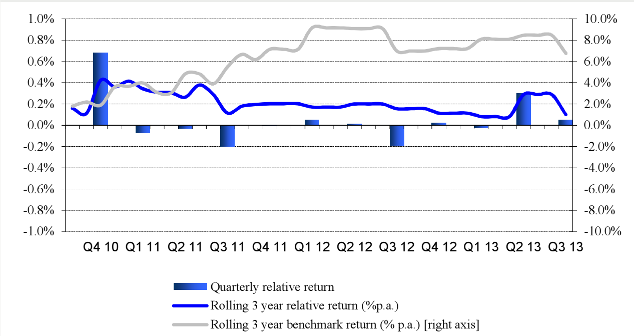
5.16 BlackRock No.2 – Property account ("ring fenced" assets)

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
£51,032	1.6

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.2	6.1	7.0
Benchmark	1.2	5.7	6.8
relative	0.0	+0.4	+0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holding in Cash decreased by 6.7%. This was invested in UK Equities (+2.8%), UK Gilts (+2.5%) and US Equities (+1.3%).
- UK Gilts and UK Equity Futures generated positive absolute returns, while US Equities generated a negative return.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	What happened? Negative Factors
UK Equities	■ The new BoE Governor, Mark Carney, in his forward guidance policy reaffirmed his commitment to maintain rates at low levels at least until unemployment falls below 7%. ■ The UK economy posted a strong quarter in Q2, with growth at 0.7%. This was led by construction and manufacturing, suggesting recovery in the economy continues. ■ According to Markit and the Chartered Institute of Purchasing & Supply, August 2013 Purchasing Managers' Index (PMI) rose to a two-and-a-half year high of 57.2, up from July's figure of 54.8. ■ UK equity dividend yields remain comfortably in excess of government bond yields while UK equities remain the cheapest developed equity market globally on a P/E (price to earnings) basis.	■ The UK trade deficit doubled in the month of July to £3.1 billion from £1.3 billion in June, due to falling exports to countries outside European Union. ■ The equity market continues to be nervous about the extent to which the US Federal Reserve will "taper" its programme of asset purchases. ■ Towards the end of the quarter, markets became concerned about a possible escalation of the conflict in Syria that could destabilise the wider region.
Overseas Equities:		
North America	■ The US Federal Reserve refrained from any tapering of QE and assured the markets that a hike in interest rates will follow only when jobless rate falls below 6.5% and the outlook for inflation is no higher than 2.5%. These comments led to a decrease in the 10-Year Treasury bond yield by 15 basis points and equity markets touching a new high. ■ The underlying fundamentals in terms of consumer spending, housing and business confidence are slowly improving, making equities look inexpensive. ■ Positive earnings growth and accelerating economic momentum suggest stronger performance from US equities.	■ Uncertainty over the starting date of Fed's "taper" of quantitative easing, and concerns over potential conflict in Syria, led to a fall in the US equity markets. ■ Revised US GDP forecasts by the Fed reflected a decrease in the growth rate by 0.3%. The GDP is set to increase by 2.0% to 2.3% in 2013, down from a June projection of 2.3% to 2.6% growth. ■ Though employment figures look reassuring, the rate of growth in jobs and the quality of new jobs remains a concern. ■ The acrimonious debate on the raising of the debt ceiling is a growing cause for concern.

Asset Class	What happened? Positive Factors	Negative Factors
Europe	■ The Eurozone emerged from an 18 month recession in the second quarter, as GDP grew by 0.3% for the 17-nation currency area. Germany and France showed the strongest signs of recovery with Q2 growth rates of 0.7% and 0.5%, respectively. ■ Business activity in the Eurozone, as measured by the Purchasing Managers' Index (PMI), rose to its highest level since June 2011. ■ The European Central Bank President, Mario Draghi, assured the markets that the ECB would be willing to extend its long-term bank lending programme in order to keep short term interest rates low. ■ The ECB left its main refinancing rate at a historic low of 0.5%, staying true to its commitment to keep rates at current or lower levels for "an extended period".	■ Standard and Poor's Ratings Services downgraded Italy's sovereign credit rating by one notch, citing the country's worsening economic prospects. S&P lowered the country's rating two levels above junk territory, from BBB+ to BBB. ■ IMF estimates see the output gap peaking in 2013 at 3%, as unemployment rates remained at an all time high of 12.1% in the month of August. Youth unemployment continued to edge higher, up from 23.3% a year ago to 23.4%. ■ According to the IMF, Greece has a shortfall of €11 billion cash in its second bailout and Eurozone governments need to fill half of that gap before the end of this year.
Japan	■ Japan's consumer price index has now risen for three consecutive months, rising at the fastest pace in almost five years in August 2013, by 0.9%. This represents good progress towards achieving the targeted annual inflation of 2% in the next two years. These rises have fuelled hopes that the economy is pulling out of deflation. ■ Japan's economy expanded at an annualised rate of 3.8% in Q2, largely driven by strong consumer spending. This shows the benefits of Mr Abe's reflationary policies and the Bank of Japan's aggressive monetary stimulus.	■ In an attempt to ease the nation's colossal debt, Mr Abe has confirmed the raising of sales tax to 8% in April 2014 and further to 10% in Oct 2015, from 5% as of today. Although this increase will be paired with new stimulus spending, economists fear that this move will derail the nascent economic recovery in the short term. ■ Slowing growth in emerging markets is affecting demand for exports, whilst a weaker yen has hit importers.
Asia Pacific	■ In an attempt to boost economic growth, the Reserve Bank of Australia (RBA) cut interest rates by 0.25% to a record low of 2.5%. ■ Upbeat Chinese trade and inflation data brought cheers to the Asian equity markets. August inflation was benign at 2.6% while export growth of 7.2% created the highest August trade surplus for the country since 2008.	■ Rising capital costs and currency depreciations have negatively affected most Asian economies. Those with large current account deficits such as India have fared particularly poorly, seeing their currencies depreciate significantly. ■ Slower commodity demand from key economies such as China still affects the wider region.

Asset Class	What happened? Positive Factors	Negative Factors
Emerging Markets	▪ Buying opportunities can be seen in emerging markets as equity valuations look cheap after recent falls. ▪ Higher consumer demand from the developed economies, coupled with a weak currency, is supporting the growth of emerging economies which are export oriented.	▪ During the quarter, we have seen emerging economies struggle with weak currencies and dependency on foreign capital inflows to fund their current-account deficits. ▪ Mexico has cut its 2013 GDP growth forecast to 1.8%, down from the 3.1% that was forecast back in July, on the back of an unexpected drop of 0.7% in the Q2 GDP figures. ▪ Most emerging market economies are still facing some headwinds due to inflation pressures and are raising their interest rates to combat high prices. Brazil has raised its interest rates for the fourth time since April, while Indonesia has raised interest rates to the highest level since 2009.
Gilts	▪ With the release of the August Inflation Report, the MPC adopted formal forward rate guidance, stating that it did not intend to increase interest rates until the unemployment rate has fallen to at least 7%.	▪ Gilt yields continued to rise until the final week of the quarter, with the 10-year yield peaking at a two year high above 3% due to the growing view that the Federal Reserve would begin to ‘taper’ its monthly asset purchases.
Index Linked Gilts	▪ Post a positive response for the new 2068 index-linked gilts, the Debt Management Office (DMO) has offered to issue an extra £750 million of inflation-linked bonds over the current financial year.	▪ In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	▪ Spreads over Government Bonds remained 'tight' over the quarter and prices have tended to follow movements in Government bonds. ▪ Corporations continue to maintain healthy balance sheets.	▪ The corporate bond market still suffers from a lack of liquidity while uncertainty looms over a rise in the interest rate.
Property	▪ Commercial real estate values rose for the fourth straight month in August 2013. The retail sector saw growth for the first time since October 2011. ▪ Mortgage approvals in the UK rose to a five year high in July 2013. Demand in housing is supported by policy measures such as the Funding for Lending Scheme and Help to Buy. ▪ The construction PMI grew at the fastest pace in six years in August 2013 amid a revival in the housing market, adding to signs the economic recovery is gaining traction.	▪ Over H1 2013, 77,686 homes were approved for construction which is still well short of the 220,000 per year needed to meet housing demand.

Economic statistics

	Quarter to 30 September 2013			Year to 30 September 2013		
	UK	Europe(1)	US	UK	Europe(1)	US
Real GDP growth	0.8%	n/a	n/a	1.5%	n/a	n/a
Unemployment rate	7.7%	11.1%(4)	7.3%	7.7%	11.1%(4)	7.3%
Previous	*7.8%*	*11.2%*	*7.6%*	*7.9%*	*10.7%*	*7.8%*
Inflation change(2)	0.7%	0.1%	0.4%(4)	2.7%	1.1%	1.5%(4)
Manufacturing Purchasing Managers' Index	56.7	51.1	56.2	56.7	51.1	56.2
Previous	*52.5*	*48.8*	*50.9*	*48.4*	*46.1*	*51.5*
Quantitative Easing / LTRO (3)	£375bn	€1,018bn	$3,539bn	£375bn	€1,018bn	$3,539bn
Previous	*£375bn*	*€1,018bn*	*$3,284bn*	*£375bn*	*€1,018bn*	*$2,694bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 30 September 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 Aug 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.

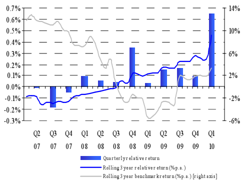
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and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

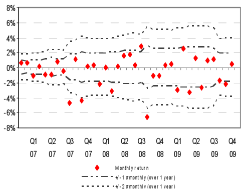
Reference | **Description**

#1



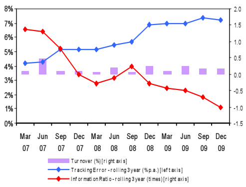
This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey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

#2



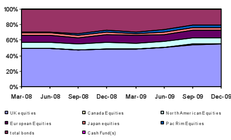
This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods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



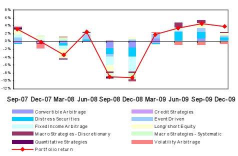
This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken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



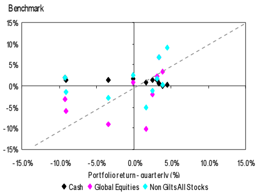
This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.

#6



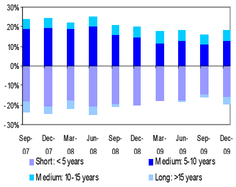
These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total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

#7



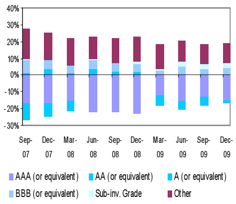
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



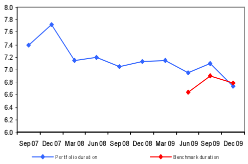
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

JLT Employee Benefits

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