Avon Pension Fund

Review for period to 31 December 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 £129m over the fourth quarter of 2013 to £3,299m.

Strategy

- Equity markets were generally positive over the last quarter. The highest returns were from the USA (+7.9%) with other Western developed markets returning around 5%. Emerging market equities fell by 0.7%, whereas Japanese and Asia Pacific equities returned 0.1% and 0.0% respectively.
- The USA was also the best performer in equity markets over the last twelve months, at 30.4%. UK, European and Japanese equities all produced returns in excess of 20%. Emerging market equities (-5.3%) and Asia Pacific (1.3%) lagged.
- The three year developed market equity returns remained ahead of the assumed strategic return but the emerging market equity return is significantly behind its assumed strategic return over 3 years.
- Gilt and corporate bond markets produced small negative returns as bond yields rose. Over the three year period returns remain ahead of the assumed strategic return as poor 2010 returns fell out of the rolling three year period.
- The Overseas Fixed Interest return has fallen to -0.7% p.a. over three years. This has been affected by rising yields within European bonds, and more recently by healthy US economic data and the announcement that the US Federal Reserve would start to scale back its asset purchase programme.
- Hedge funds remain below the assumed strategic returns but the Property return is now just ahead as returns improve.

Managers

- Returns from all managers were positive in absolute terms over the last quarter, with the exception of Genesis (-0.3%) and SSgA Pacific (-0.2%). The best performing funds were the UK equity funds, TT (8.8%) and Jupiter (7.6%).
- The highest one-year returns also came from the UK equity managers, with Jupiter at 31.0% and TT at 28.3%.
- Over three years, SSgA Pacific and Genesis were affected by relatively poor returns in Asia and the emerging markets. SSgA Pacific’s return has fallen from 8.1% p.a. to 4.3% p.a. and Genesis’ return has fallen from 1.8% p.a. to -0.9% p.a. This is due to market returns and both managers have actually outperformed their benchmarks over this period, meeting their objectives.
- TT outperformed over three years but did not meet their three-year target.

- The only other managers to not meet their three-year target were the hedge fund managers, who each produced negative relative returns over 3 years, but Stenham and Gottex both outperforming 1 year targets.
- 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 could continue to suffer negative sentiment as growth rates slow and the US tapers its asset purchase programme.
  - Most commentators suggest weak returns are due to negative sentiment rather than fundamental structural concerns;
  - With the recent increase in the strategic allocation to this area, the Panel should consider these factors in the context of the long-term outlook for outperformance versus developed markets despite short term sentiment and volatility.
- Whilst it is too short a period to draw any concrete conclusions, there does not appear to have been any immediate negative impact on the performance of the Schroder Global Equity Portfolio following the departure of Virginie Maisonneuve.
- In January 2014, State Street were fined £22.9m by the FCA for overcharging six clients that used its transition management service between June 2010 and September 2011. We note that this was a different part of the business to their fund management and does not affect the funds.

2 Market Background

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

Market Statistics

Yields as at 31 December 2013	% p.a.
UK Equities	3.28
UK Gilts (>15 yrs)	3.58
Real Yield (>5 yrs ILG)	0.03
Corporate Bonds (>15 yrs AA)	4.42
Non-Gilts (>15 yrs)	4.63

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.13	-0.29	0.39
UK Gilts (>15 yrs)	0.17	0.58	-0.56
Index-Linked Gilts (>5 yrs)	0.07	0.10	-0.46
Corporate Bonds (>15 yrs AA)	0.11	0.35	-1.00
Non-Gilts (>15 yrs)	0.12	0.41	-0.77

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-1.8	-5.9	6.9
Index-Linked Gilts (>5 yrs)	-0.9	0.6	7.6
Corporate Bonds (>15 yrs AA)	-0.3	0.0	7.8
Non-Gilts (>15 yrs)	-0.3	-0.6	8.0

* Subject to 1 month lag

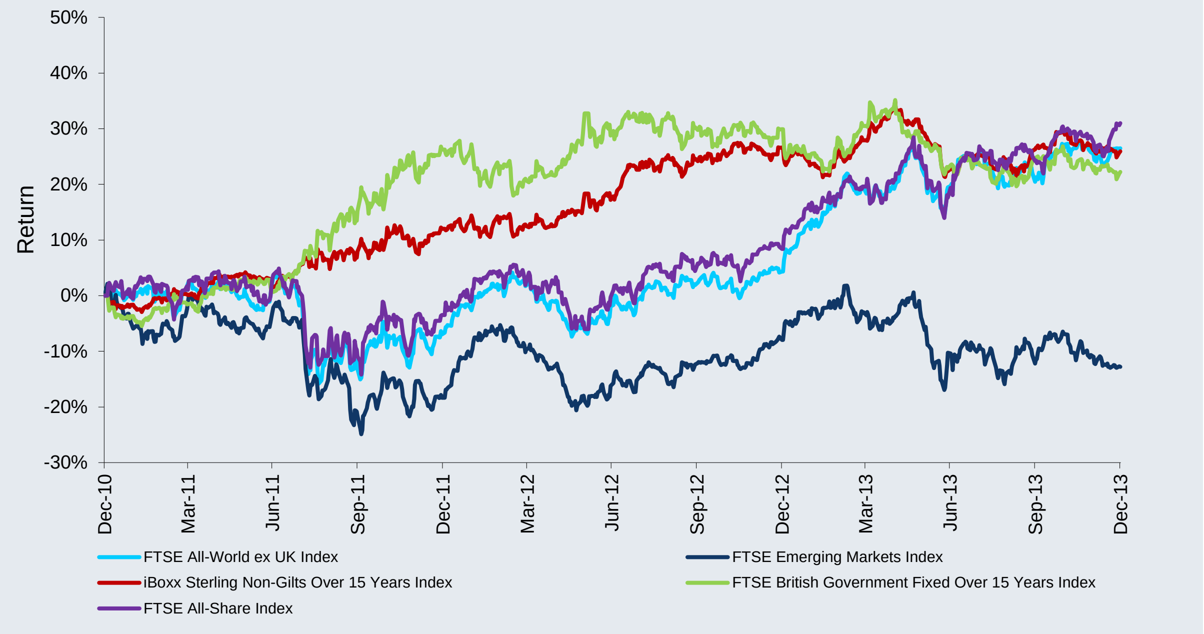
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	5.5	20.8	9.4
Overseas Equities	5.0	21.2	8.1
USA	7.9	30.4	14.1
Europe	5.2	24.0	7.4
Japan	0.1	25.0	4.0
Asia Pacific (ex Japan)	0.0	1.3	0.5
Emerging Markets	-0.7	-5.3	-4.5
Property	4.7	10.9	7.1
Hedge Funds	4.2	10.0	5.2
Commodities	-2.5	-3.1	-2.6
High Yield	1.5	6.0	7.7
Emerging Market Debt	1.5	-5.3	6.1
Senior Secured Loans	2.2	9.2	6.3
Cash	0.1	0.4	0.5

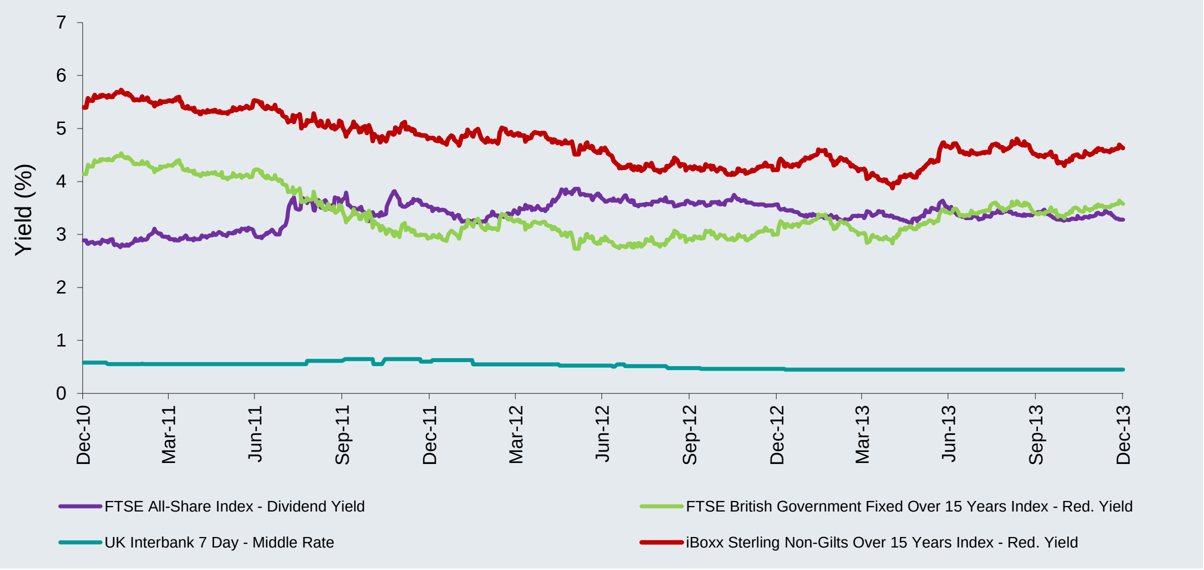
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.3	1.9	1.9
Against Euro	0.5	-2.5	1.0
Against Yen	9.6	23.9	11.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.7	3.5
Price Inflation – CPI	0.5	2.0	3.0
Earnings Inflation *	-0.1	0.8	1.4

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 trend over the last 3 years until the end of April 2013 shows falling UK gilts and corporate bond yields, whilst the dividend yield on the FTSE All-Share Index has risen. Bond yields have increased slightly in the last 8 months whilst the dividend yield has remained relatively flat.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 December 2013, with assumptions about returns made in the Investment Strategy agreed in 2013.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities	8.25	8.8	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 Q4 2010 (which has fallen out of the 3-year return), hence returns are lower than in the last report.
Emerging Market Equities	8.75	-4.5	In contrast to long term performance, the 3-year return from emerging market equities has fallen significantly due to negative sentiment from slowing growth and the withdrawal of capital as the US begins to taper its asset purchase programme.
UK Gilts	4.5	6.9	Ahead of the assumed strategic return as gilt yields fell significantly during 2011 and have fallen in the last quarter. Index-linked returns fell over the last quarter as UK inflation continued to decline.
Index Linked Gilts	4.25	7.6	
UK Corporate Bonds	5.5	6.8	
Overseas Fixed Interest	5.5	-0.7	Behind the assumed strategic return, falling to a negative absolute return. In the last quarter, healthy US economic data and speculation over when the Federal Reserve would scale back its asset purchase programme put upward pressure on US bond yields. "Core" European bonds followed the US lead, whilst Europe's peripheral markets (Italy, Spain, Portugal, Ireland and Greece) delivered good quarterly performance but their three year returns were still affected by rising yields.
Fund of Hedge Funds	6.0	2.7	Behind the assumed strategic return following a negative return in 2011. More recently returns have been improving, with the return over the last twelve months being 7.7%.
Property	7.0	7.1	This is now slightly ahead of the assumed strategic return and 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 31 December 2013, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 December 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,721,609	52.2	40.0
Emerging Market Equities	145,731	4.4	10.0
Diversified Growth Funds (DGF)	315,186	9.6	10.0
Bonds	621,730	18.8	20.0
Fund of Hedge Funds	162,737	4.9	5.0
Infrastructure	-	-	5.0
Cash (including currency instruments)	81,021	2.5	-
Property	250,853	7.6	10.0
TOTAL FUND VALUE	**3,298,868**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £129m over the fourth quarter of 2013 to £3,299m. Approximately £315m was invested into DGF.
- In terms of the asset allocation, the move from Man and Blackrock into Pyford, Barings and RLAM has reduced the developed market equity allocation and hedge fund allocation and introduced DGFs.
- Deviations from the strategic benchmark weight will continue during the period that changes to the investment strategy, agreed in 2013, are implemented. The overweight position to developed market equities relative to emerging market equities is expected to be reduced during Q1 2014.
- An allocation to infrastructure is expected to be built up over time.

Manager	Asset Class	30 September 2013 Value £'000	30 September 2013 Proportion of Total %	Net new money £'000	31 December 2013 Value £'000	31 December 2013 Proportion of Total %
Jupiter	UK Equities	151,976	4.8	-	163,577	5.0
TT International	UK Equities	171,207	5.4	-	185,688	5.6
Invesco	Global ex-UK Equities	223,388	7.0	-	236,622	7.2
Schroder	Global Equities	203,330	6.4	-	215,489	6.5
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	105,517	3.3	-	107,799	3.3
Genesis	Emerging Market Equities	146,181	4.6	-	145,731	4.4
MAN	Fund of Hedge Funds	63,607	2.0	-61,898	1,651	0.1
Signet	Fund of Hedge Funds	65,903	2.1	-	66,477	2.0
Stenham	Fund of Hedge Funds	35,966	1.1	-	37,657	1.1
Gottex	Fund of Hedge Funds	55,755	1.8	-	56,953	1.7
BlackRock	Passive Multi-asset	1,430,170	45.2	-307,013	1,170,637	35.5
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	51,032	1.6	-6,300	45,915	1.4
RLAM	Bonds	196,005	6.2	45,000	242,148	7.3
Schroder	UK Property	139,246	4.4	-	146,148	4.4
Partners	Property	97,169	3.1	6,800	105,871	3.2
Record Currency Mgmt	Dynamic Currency Hedging	7,877	0.2	-	21,421	0.6
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	7,426	0.2	-	9,092	0.3
Pyrford	DGF	-	-	105,000	104,320	3.2
Barings	DGF	-	-	210,000	210,866	6.4
Internal Cash	Cash	17,970	0.6	8,411	24,807	0.8
Rounding		-	-	-	-1	-
TOTAL		**3,169,725**	**100.0**	**0**	**3,298,868**	**100.0**

Source: Avon Pension Fund Data provided by WM Performance Services

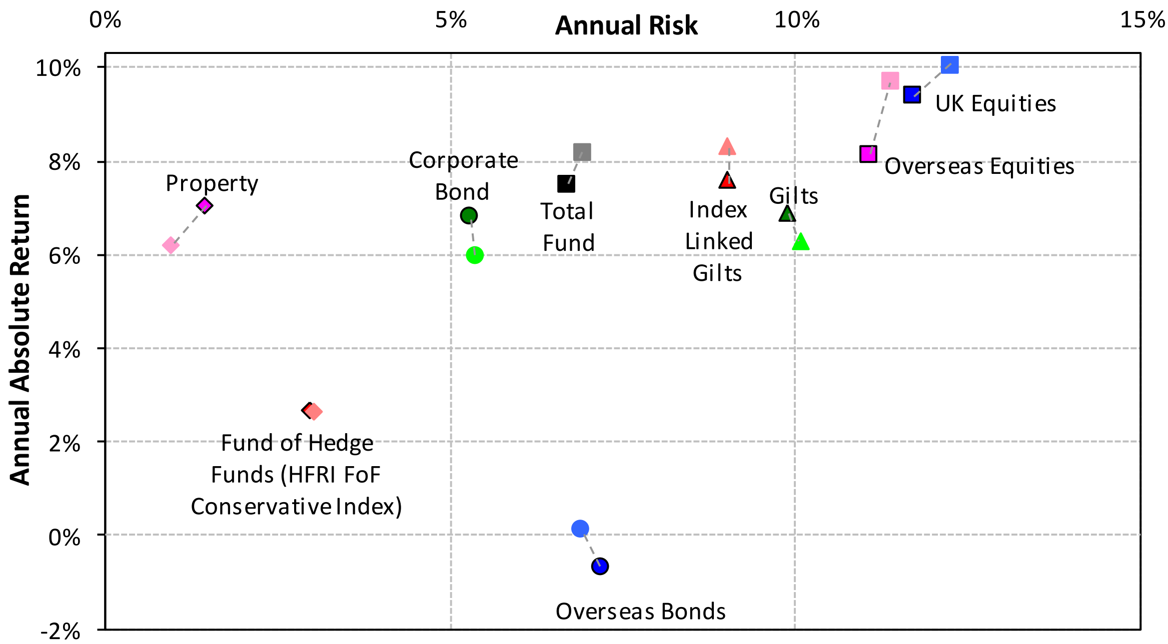
4 Performance Summary

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 December 2013 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.

This chart can be compared to the 3 year risk vs return managers' chart on page 13.

3 Year Risk v 3 Year Return to 31 December 2013

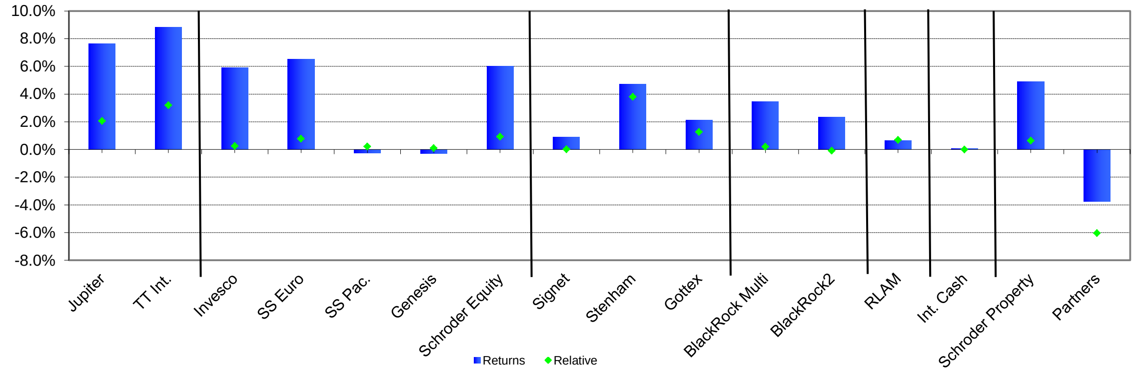


- All of the underlying benchmarks except overseas bonds have produced a positive return over the period (3 years p.a.).
- The three year return has decreased for both UK and overseas equities but increased for gilts and corporate bonds. Equities produced positive returns over the final quarter of 2013, but the higher returns of Q4 2010 have fallen out of the analysis. Conversely, bonds fell in the final quarter of 2013 as yields rose, but there were larger falls in Q4 2010.
- Equities remain the best performing asset class over three years, followed by index-linked gilts, property and conventional gilts.
- The property return continues to increase.
- The hedge funds index continues to produce steady returns, with very little change in the rolling 3 year return.
- Overseas bonds moved to a negative 3 year absolute return as US bond yields rose.
- In terms of risk, the three-year volatility has decreased slightly for each of the asset classes apart from property and overseas bonds.
- The three-year return on UK equities, gilts, index-linked gilts and corporate bonds remain above their assumed strategic return. Overseas bonds and hedge funds remain below their assumed strategic return, whist property is now marginally ahead of its assumed strategic return

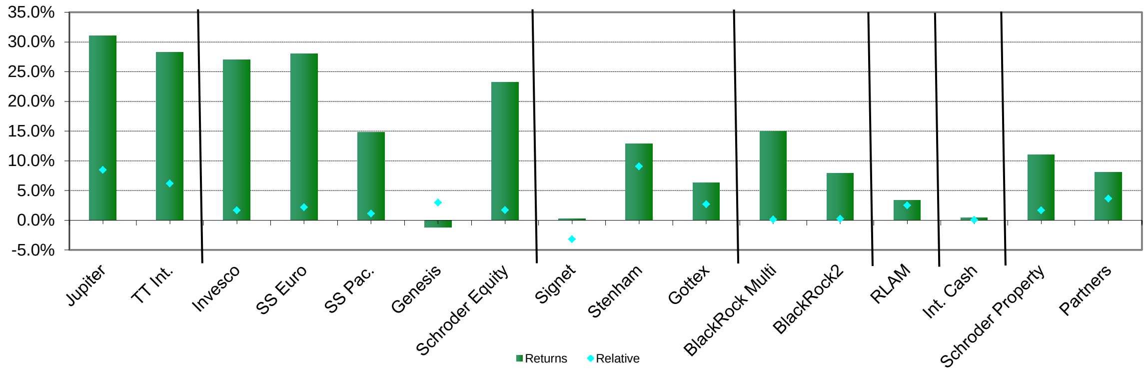
Aggregate manager performance

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

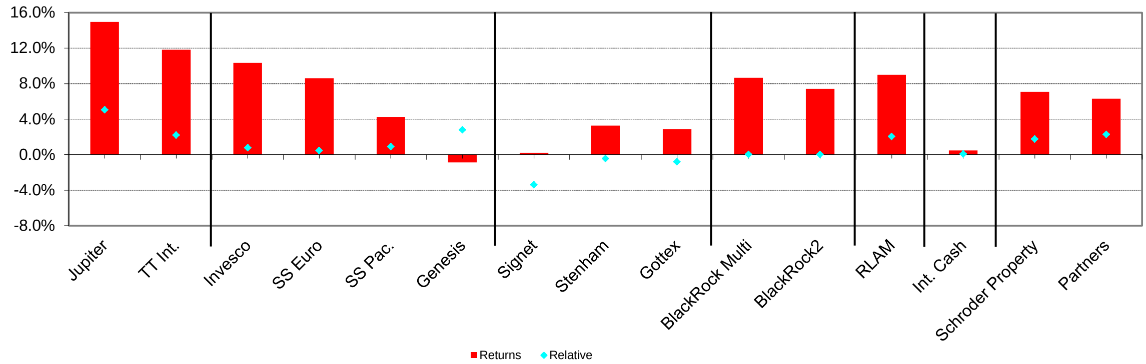
Absolute and relative performance - **Quarter to 31 December 2013**



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



Absolute and relative performance - **3 years to 31 December 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 December 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.

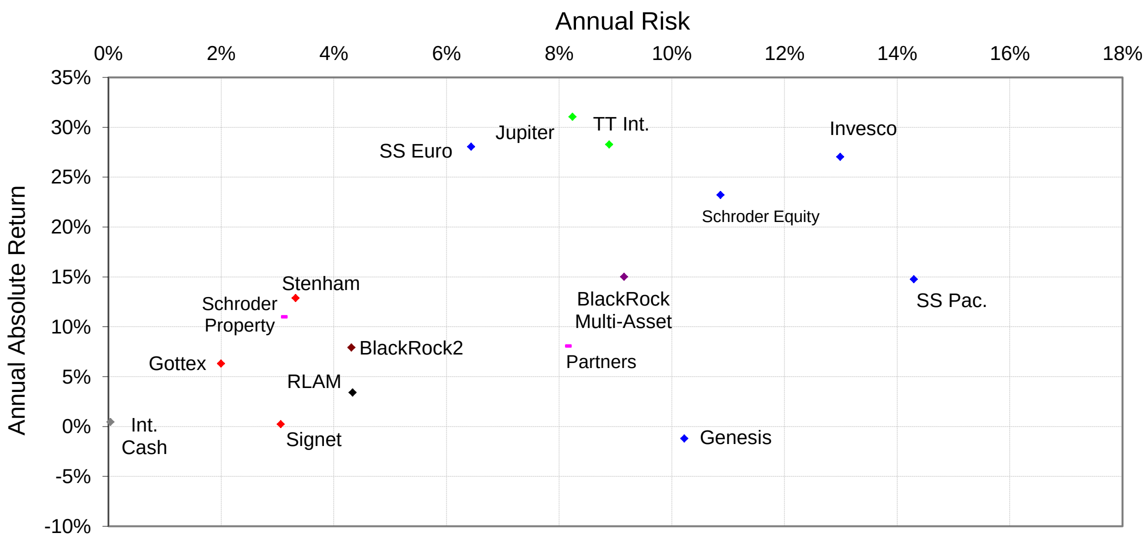
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.1	+8.5	+5.1	Target met
TT International	+3.2	+6.2	+2.2	Target not met
Invesco	+0.2	+1.7	+0.8	Target met
SSgA Europe	+0.8	+2.2	+0.5	Target met
SSgA Pacific	+0.2	+1.1	+0.9	Target met
Genesis	+0.1	+3.0	+2.8	Target met
Schroder Equity	+0.9	+1.7	NA	N/A
Signet	0.0	-3.2	-3.4	Target not met
Stenham	+3.8	+9.1	-0.4	Target not met
Gottex	+1.3	+2.7	-0.8	Target not met
BlackRock Multi - Asset	+0.2	+0.1	0.0	Target met
BlackRock 2	-0.1	+0.3	0.0	Target met
RLAM	+0.7	+2.5	+2.1	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.6	+1.7	+1.8	Target met
Partners Property	-6.0	+3.7	+2.3	N/A

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

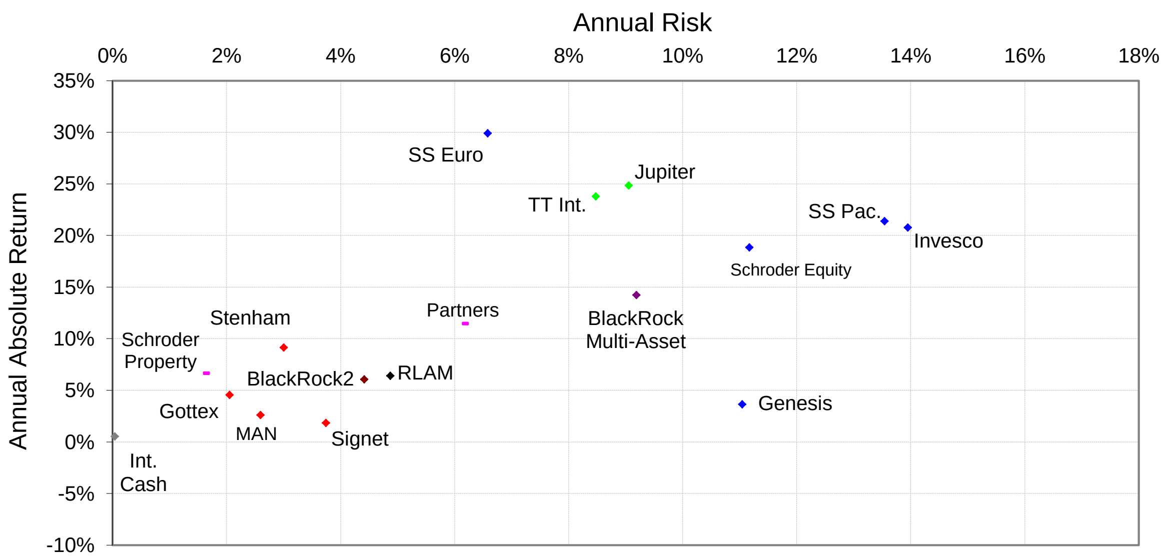
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2013 of each of the funds. We also show the same chart, but with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

1 Year Risk v 1 Year Return to 31 December 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 September 2013



Source: Data provided by WM Performance Services

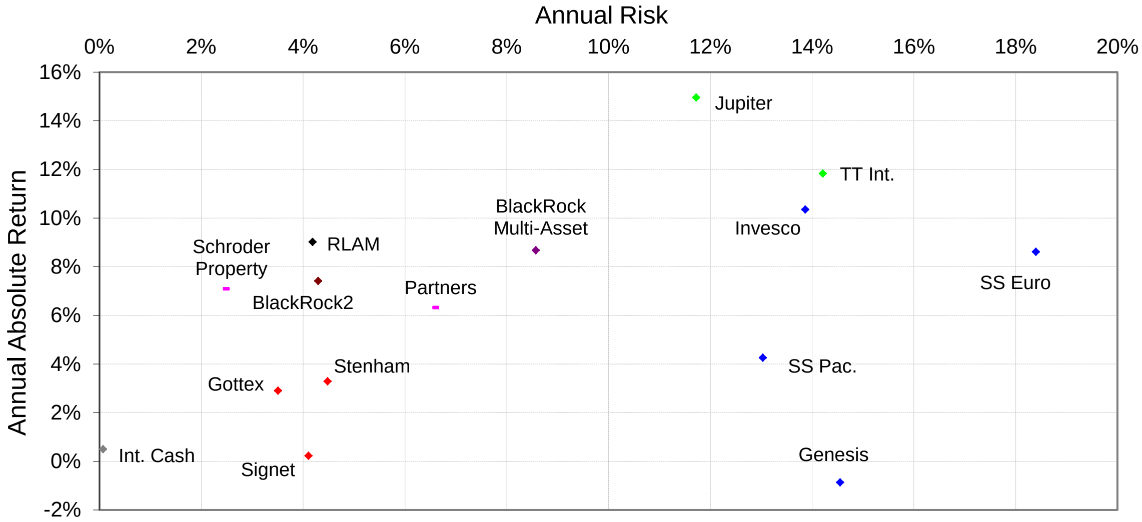
The managers are colour coded by asset class, as follows:

- 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 highest one-year returns came from the UK equity managers, with Jupiter at 31.0% and TT at 28.3%. Marginally behind were Invesco, SSgA Europe and Schroder equity, all with returns above 20%.
- SSgA Pacific and Genesis were affected by relatively poor returns in Asia and the emerging markets. The Genesis emerging equity return has fallen from 3.6% to -1.2%.
- Other notable movements in the one-year return were Schroders Property (up from 6.7% to 11.0%) and RLAM (down from 6.4% to 3.4%)
- The one year-risk figures have remained reasonably stable, apart from Schroders Property (up from 1.6% to 3.1%) whose last quarter's return was significantly higher than the more stable lower returns of the previous four quarters.

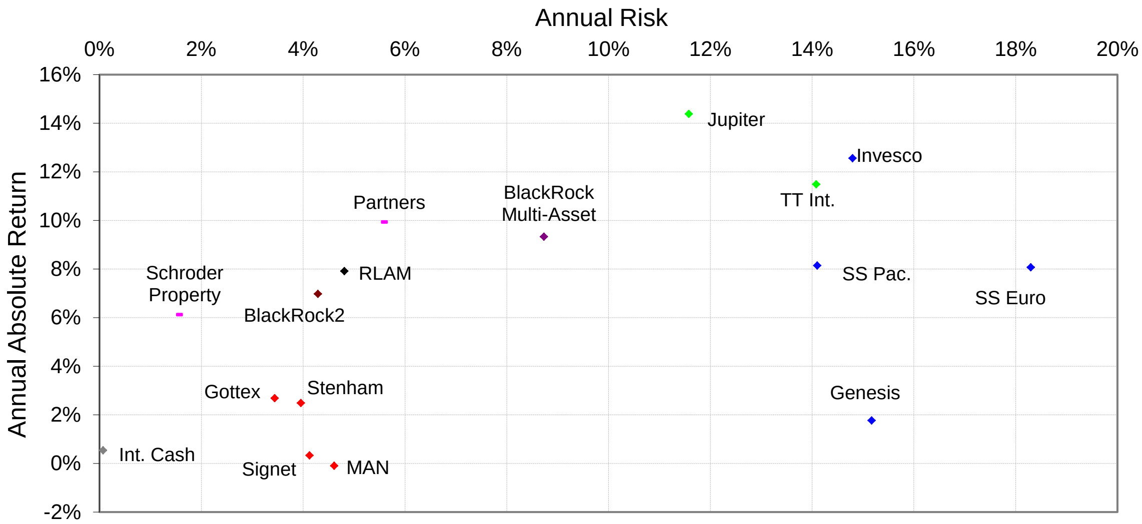
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2013 of each of the funds. We also show the same chart, but with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

3 Year Risk v 3 Year Return to 31 December 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 September 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 three-year returns have remained reasonably stable apart from the emerging market and Asia equity managers.
- SSgA Pacific's return has fallen from 8.1% p.a. to 4.3% p.a. and Genesis from 1.8% p.a. to -0.9% p.a. Both managers continue to outperform their respective benchmarks.
- The three-year risk figures have also remained stable. 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 funds. The one-year return was positive in absolute terms from all managers except for Genesis.
- Over three years, the best performer remains Jupiter at 15.0% p.a., some margin above the second best, TT, at 11.8% p.a.
- Hedge fund returns remain the lowest at around -2% p.a to 3% p.a. together with Genesis at -0.9% p.a.
- Generally returns were broadly consistent with those seen last quarter, with the exception of Genesis emerging markets equity and SSgA Pacific equity.
- 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 Fund of Hedge Funds have underperformed their assumed strategic return.

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

- In a period of underperformance from Asia (ex Japan) and Emerging Markets relative to other equity regions, SSgA (Asia Pacific) and Genesis (Emerging Markets) have been able to outperform their respective benchmarks.
- 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 it is too short a period to draw any concrete conclusions, there does not appear to have been any immediate negative impact on the performance of the Schroder Global Equity Portfolio following the departure of Virginie Maisonneuve.

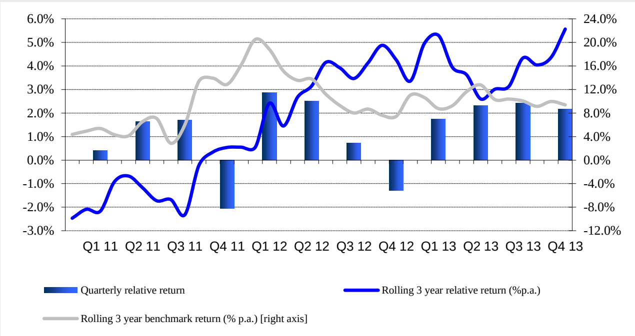
5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

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

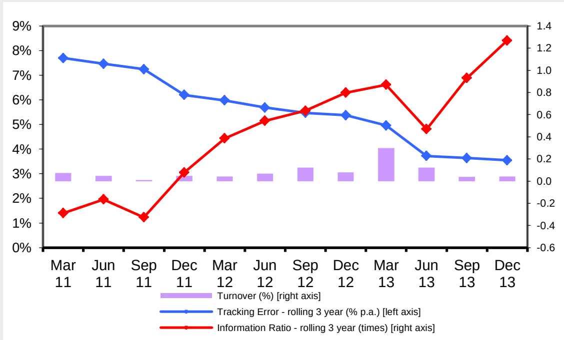
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear and robust approach to evaluating SRI factors within the investment process ■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities ■ Corporate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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£163,577	5.0	5.0%	58

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	7.6	31.0	15.0
Benchmark	5.5	20.8	9.4
Relative	+2.1	+8.5	+5.1

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

Comments:

- Jupiter are significantly outperforming their 3 year performance target. Due to the nature of the portfolio (as outlined below), we would expect the fund return to exhibit differences relative to the FTSE All Share Index return and have no concern over the risk taken by the fund.
- The Fund's allocation to Cash (6.5%) has increased from the last quarter but 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 Q4 2013, Jupiter was significantly underweight in Oil & Gas, Consumer Goods and Basic Materials, with significant overweight positions in Consumer Services and Industrials.
- There was an increase in the information ratio over the quarter as the three-year return increased from 3.9% p.a. to 5.1% p.a.

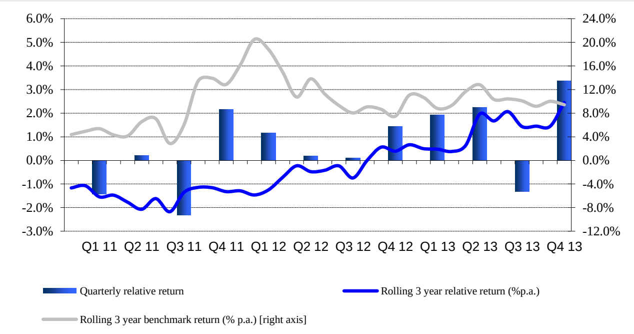
5.2 TT International – UK Equities (Unconstrained)

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

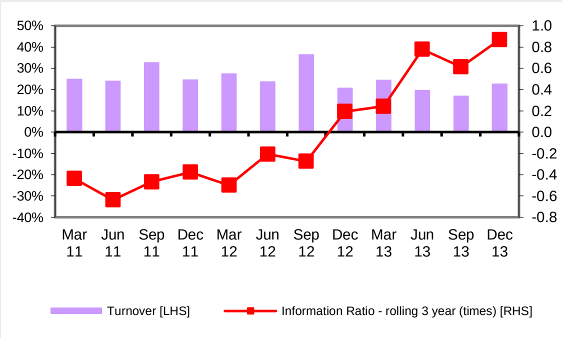
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Favoured the partnership structure that aligns managers and Fund's interests. ■ Focussed investment activity and manages its capacity ■ Clear, robust stock selection and portfolio construction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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£185,688	5.6	2.8%	53

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	8.8	28.3	11.8
Benchmark	5.5	20.8	9.4
Relative	+3.2	+6.2	+2.2

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

Comments:

- The Fund has outperformed the benchmark over the quarter, one year and three year periods, and is approaching their 3 year performance target.
- The Fund held an overweight position in Industrials by 5.3% and was underweight in Oil & Gas and Utilities, by 4.7% and 2.2% respectively, at the end of the quarter.
- Turnover, over the fourth quarter, increased to 22.8% compared to the last quarter's number of 17.2%.
- The 3 year tracking error (proxy for risk relative to the benchmark) has increased in Q4 2013, to stand at 2.76%. This is a first quarter of increase after a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio increased by 0.26 to 0.67, demonstrating an increase in the relative return.

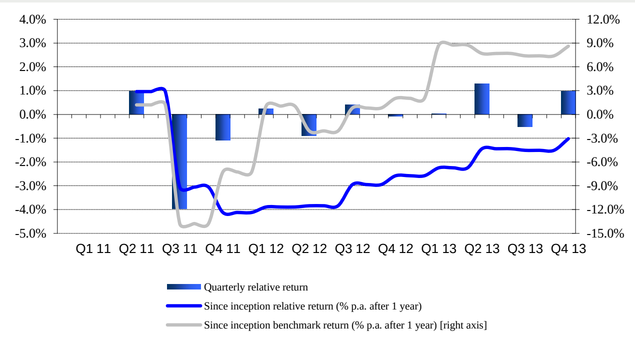
5.3 Schroder – Global Equity Portfolio (Unconstrained)

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
£215,489	6.5	N/A	N/A

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	6.0	23.2	N/A
Benchmark	5.0	21.2	N/A
Relative	+0.9	+1.7	N/A

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

Comments:

- The return was above the benchmark over the quarter and 1 year period, but remains below their performance target over 1 year.
- Companies in "later-cycle sectors", such as capital goods, performed well, and Schroders expect this to continue in 2014. Financials stocks, such as insurance companies and US banks, also performed well.
- Negatives were emerging market equities, especially in Brazil where there was a slowdown in consumer spending. Concerns about the Indonesian economy affected their stock Jardine Strategic, which has operations in Indonesia. Schroders retain conviction in these stocks and view recent weakness as an opportunity to add to positions.
- Whereas equity returns in 2013 were largely driven by factors other than company earnings, in 2014 Schroders believe that earnings growth will be a more important driver of equity returns. The focus on company fundamentals will benefit stock-pickers, and the expected pick-up in global GDP growth will favour industrial stocks.
- Depressed bond yields have caused income-focused investors to search for income in the higher-yielding parts of the equity market. Schroders think this has pushed up the prices, making companies with strong future earnings and dividend growth look good value relative to income stocks.

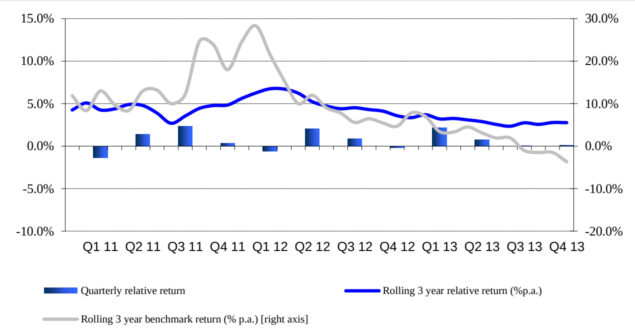
5.4 Genesis Asset Managers – Emerging Market Equities

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

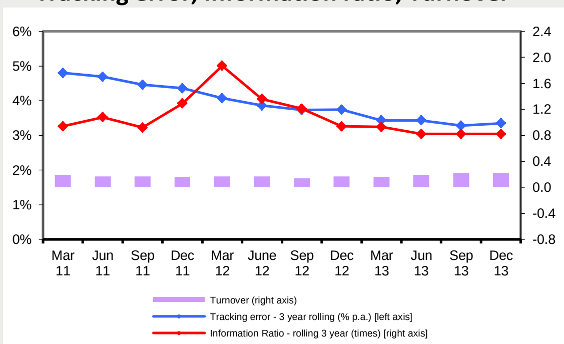
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Long term investment approach which takes advantage of evolving growth opportunities ■ Niche and focussed expertise in emerging markets ■ Partnership structure aligned to delivering performance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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£145,731	4.4	3.4%	163

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.3	-1.2	-0.9
Benchmark	-0.4	-4.1	-3.6
relative	+0.1	+3.0	+2.8

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) increased slightly to 3.4% in Q4 2013. The three year information ratio (risk adjusted return), has remained unchanged to 0.8.
- The allocation to Cash (1.4%) decreased slightly compared to the previous quarter (1.9%).
- On an industry basis, the Fund is overweight Consumer Staples (+7.6%), Materials (+5.7%), Health Care (+2.6%), Information Technology (+1.3%) and Financials (+0.8%). The Fund is underweight to Consumer Discretionary (-5.5%), Energy (-4.0%), Telecom Services (-4.6%), Industrials (-3.1%) and Utilities (-2.0%).

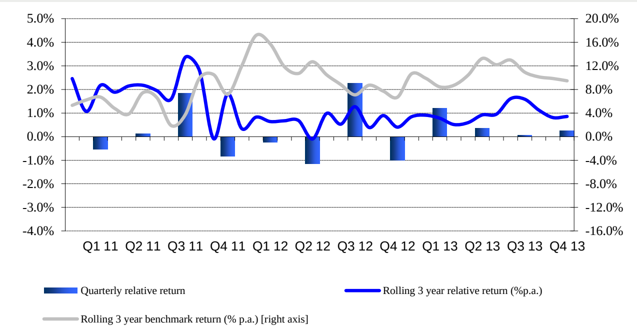
5.5 Invesco – Global ex-UK Equities (Enhanced Indexation)

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

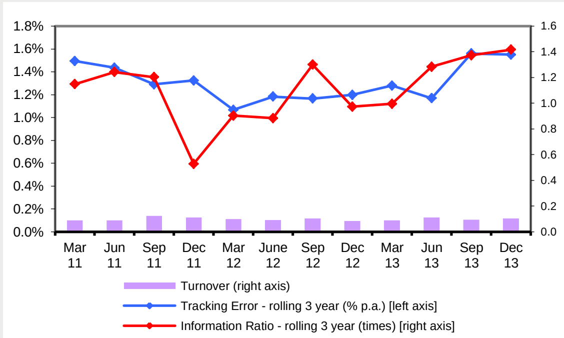
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis ■ One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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£236,622	7.2	1.6%	385

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.9	27.0	10.4
Benchmark	5.7	25.0	9.5
relative	+0.2	+1.7	+0.8

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

Comments:

- Over the last quarter, stock selection contributed positively.
- The absolute volatility has increased to 11.4% at the end of the fourth quarter of 2013 compared to 11.0% at the end of the third quarter of 2013, reflecting the increase in market volatility over the period.
- The turnover for this quarter of 10.5% increased from 9.3% in the previous quarter. The number of stocks (385) increased 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.
- Invesco's three year performance remains above their outperformance target.

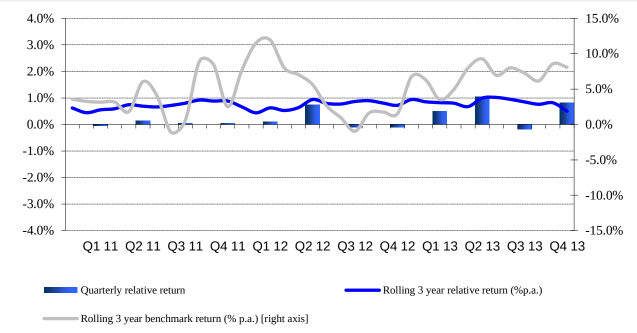
5.6 SSgA – Europe ex-UK Equities (Enhanced Indexation)

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

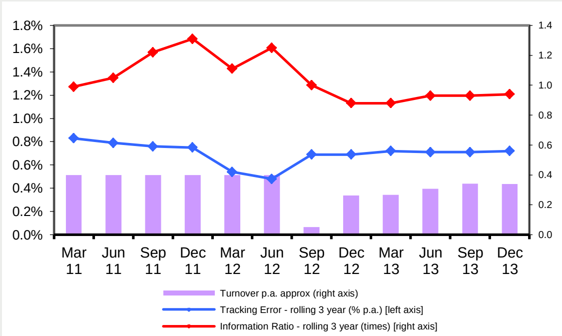
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Strength of their quantitative model and process, and ongoing research to develop the model. ▪ Historical performance met the risk return parameters the Fund was seeking. ▪ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£39,903	1.2	0.7	212

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	6.5	28.0	8.6
Benchmark	5.7	25.3	8.1
relative	+0.8	+2.2	+0.5

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

Comments:

- The Fund's return is meeting their performance target over 3 years.
- France, Germany and Switzerland make up over 60% of the fund's benchmark - it remains overweight in all three countries.
- The total pooled fund size on 31 December 2013 was £39.98m, increasing over the last quarter and falling significantly since the size of £306.12m on 31 March 2011. Performance of the SSgA Europe ex UK Enhanced Equity Fund does not appear to have been affected by its reduction in size.
- Turnover has decreased from 34.2% to 33.9%, closer to that previously seen. The tracking error has remained more or less in line with the previous quarter.
- The information ratio has broadly remained the same as compared to the previous quarter.

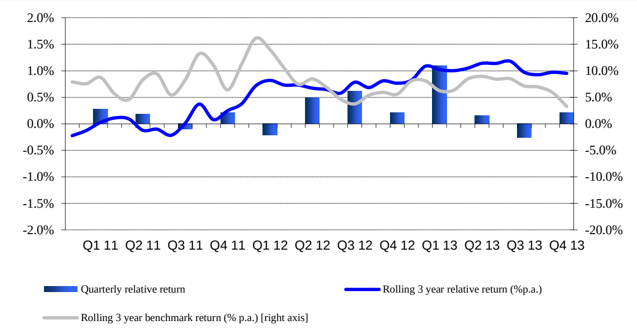
5.7 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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

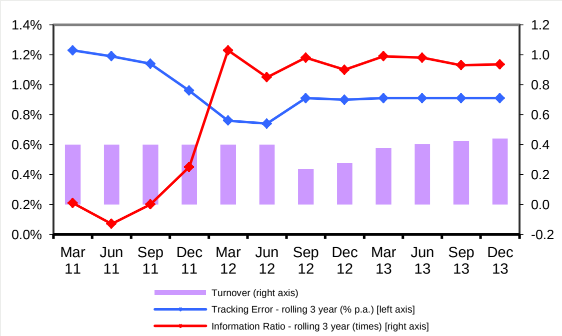
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£67,896	2.1	0.9	N/A

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.3	14.8	4.3
Benchmark	-0.5	13.5	3.3
Relative	+0.2	+1.1	+0.9

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

Comments:

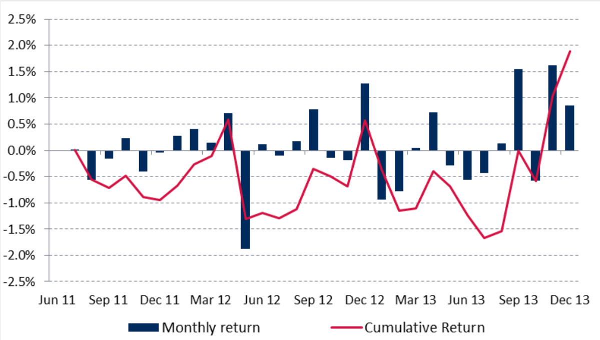
- In terms of country allocation, there are no significant deviations away from the benchmark. Just over half of the fund (56.3%) is invested in Japan, increasing from 55.8% last quarter in line with the benchmark.
- The pooled fund size is £69.96m of which Avon hold £67.90m. As with the European fund, the conclusion has been that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund outperformed over the quarter and it remains ahead of their performance target over the one and three year periods as well.
- Turnover has further increased to 44.1% after an increase in the previous quarter as well.
- The information ratio (+0.94) has slightly increased compared to the previous quarter (+0.93).
- The tracking error of the fund has remained the same as it was last quarter.

5.8 Record – Active Currency Hedging

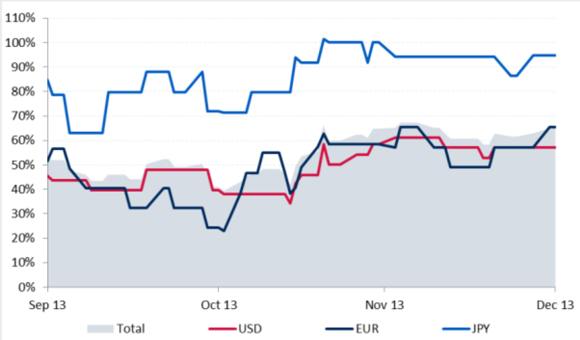
Mandate	Benchmark	Outperformance Target	Inception Date
Dynamic Currency Hedge (US$, Yen and Euro equity exposure)	N/A	N/a	July 2011

Reason in Portfolio	Reason Manager Selected
To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging.	■ Straightforward technical (ie based on price information) process ■ Does not rely on human intervention ■ Strong IT infrastructure and currency specialists

Hedging Return



Hedging Ratios



Performance (Total Hedging Portfolio)

	3 months (%)	1 year (%)	3 years (% p.a.)
Record Hedge	1.89	1.30	n/a
50% Illustrative Hedge	1.43	1.83	n/a
Relative	0.46	-0.53	n/a

Currency Hedging 3 Month Performance in Sterling Terms

	Start Exposure (£)	End Exposure (%)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)
USD	577,173,871	479,204,874	-2.22	1.14	1.22
EUR	218,624,097	200,118,065	-0.47	0.26	-0.31
JPY	143,159,655	125,312,152	-8.72	4.53	8.30
Totals	**938,957,622**	**804,635,091**	**-2.79**	**1.43**	**1.89**

Source: Record Currency Management. Note: Exposures are 1 month lagged. Returns are estimated by JLT.

Comments:

- Sterling strengthening has meant that the impact of currency hedging has had a beneficial impact.
- Over the most recent quarter, Record have outperformed a 50% hedge against the USD and Yen, but underperformed a 50% hedge against the Euro.
- The overall hedging ratio remains towards the peak of the period since inception.

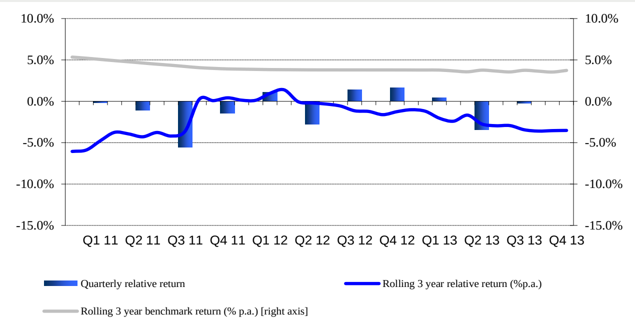
5.9 Signet – Fund of Hedge Funds

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

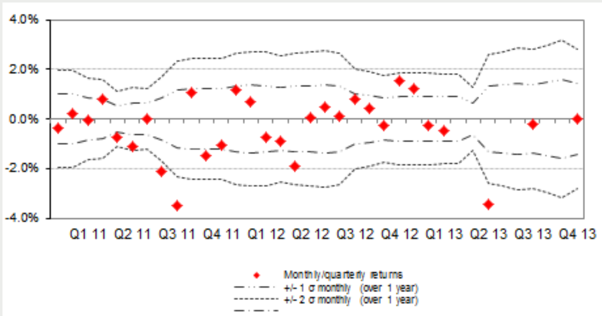
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche fixed income strategy focus ■ Established team with strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£66,477	2.0	27

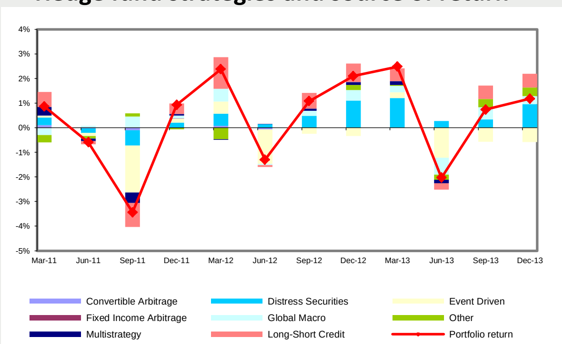
Relative returns #1



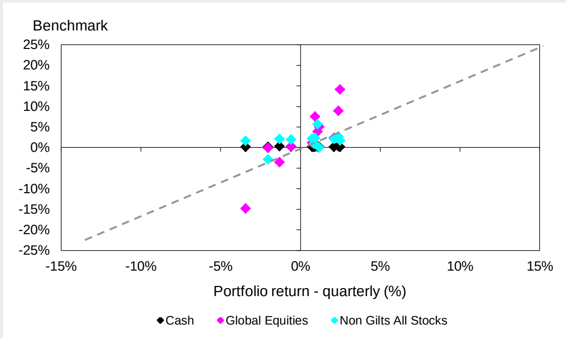
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.9	0.2	0.2
Benchmark	0.9	3.5	3.7
relative	0.0	-3.2	-3.4

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

Comments:

- Signet are underperforming their target over both 1 year and 3 years, despite a quarterly return this quarter in line with their target.
- The main contributor to Signet's quarterly performance was Distressed (1.0%), offset by Event-Driven and Special Situations (-0.6%). Both of these strategies were around 16% of the fund's asset allocation.
- 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.

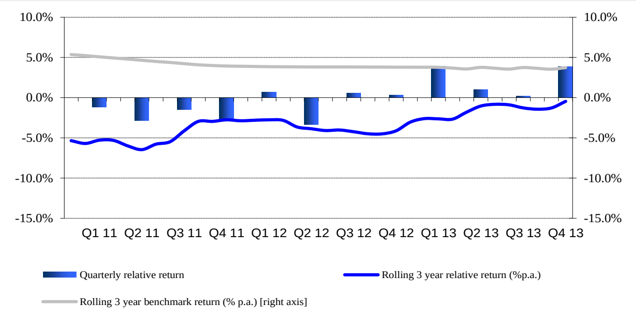
5.10 Stenham – Fund of Hedge Funds

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

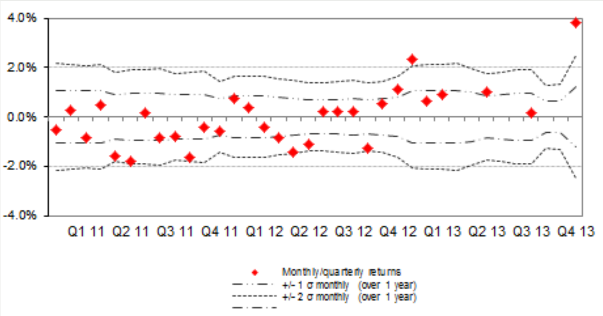
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies ■ Established team, strong track record at selecting managers ■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

Value (£'000)	% Fund Assets	Number of Funds Over The Period
£37,657	1.1	17

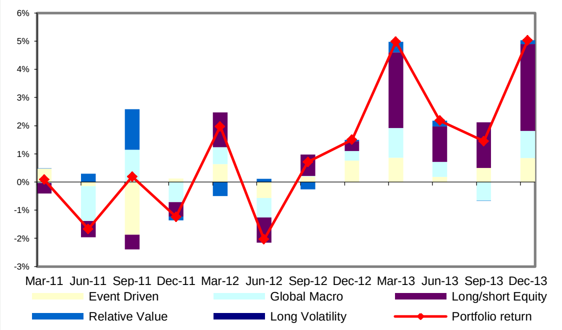
Relative returns [#1]



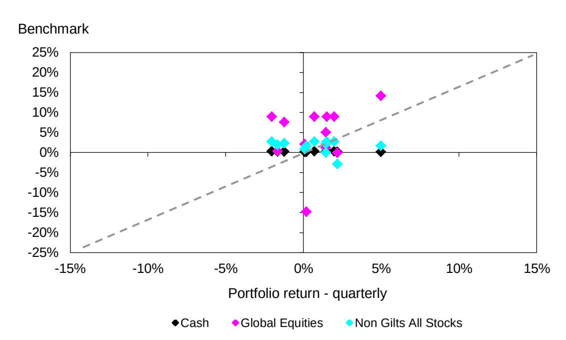
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.7	12.9	3.3
Benchmark	0.9	3.5	3.7
Relative	+3.8	+9.1	-0.4

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

Comments:

- In 2013 Stenham 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 three months and one year but are still behind over the three year measure.
- The main positive contribution to performance came from Long/short Equity (3.1%). Global Macro (1.0%), Event Driven (0.9%) and Relative Value (0.1%) also contributed positively.
- The allocation to the Global Macro and Long / Short Equity strategies made up 72.0% 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.

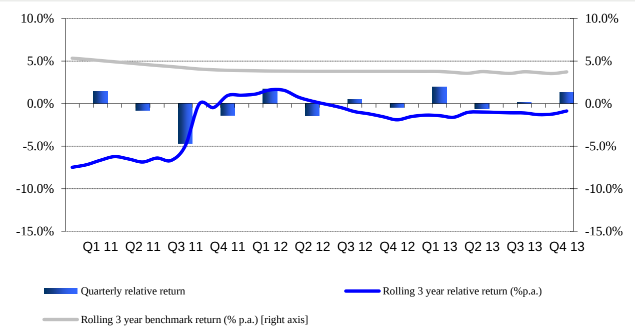
5.11 Gottex – Fund of Hedge Funds

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

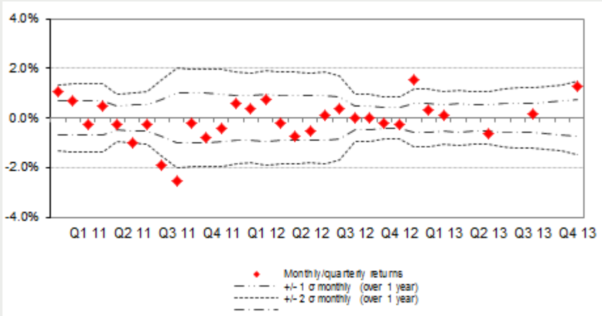
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche market neutral investment strategy ■ Established team, strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£56,953	1.7	Not available

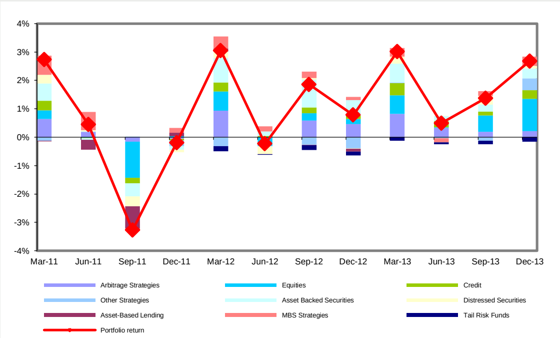
Relative returns [#1]



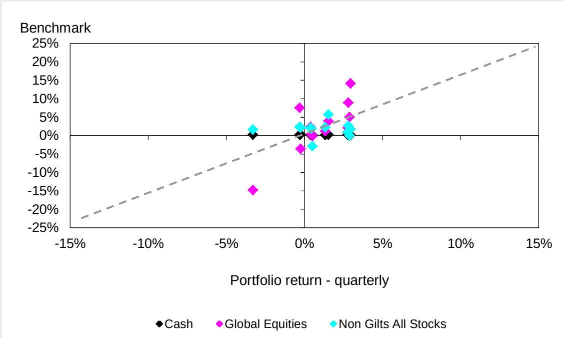
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.1	6.3	2.9
Benchmark	0.9	3.5	3.7
Relative	+1.3	+2.7	-0.8

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

Comments:

- In December Gottex announced a merger with EIM. The Panel are meeting Gottex and can assess the potential impact of the proposed merger.
- 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. The allocation to Long-short equity and Event-driven equity were increased over the 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.

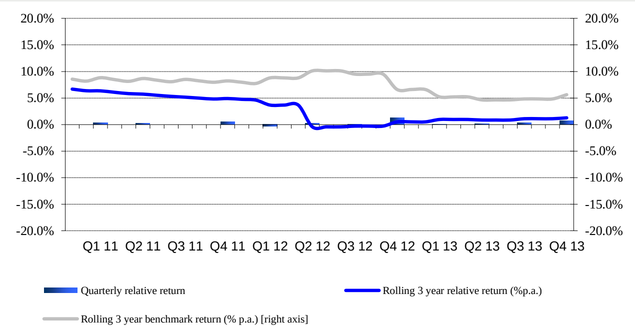
5.12 Schroder – UK Property

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

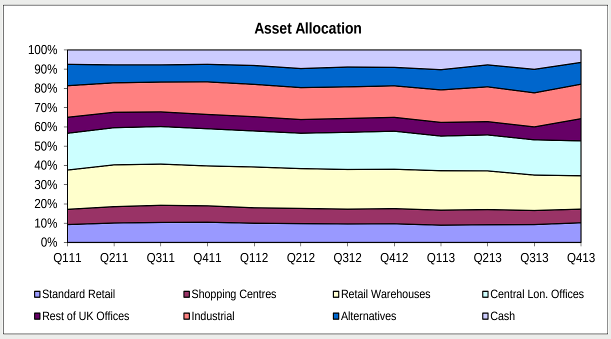
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Demonstrable track record of delivering consistent, above average performance. ■ Team though small is exclusively dedicated to UK multi-manager property management but can draw 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
£146,148	4.4	Not available	16

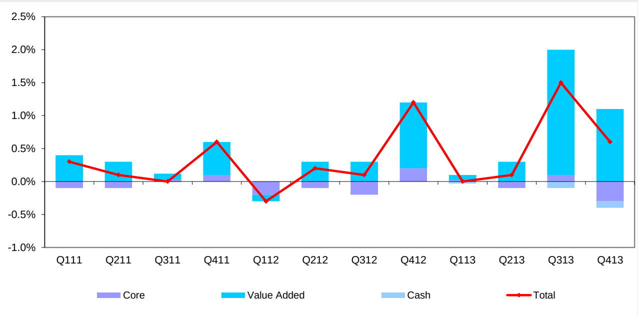
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.9	11.0	7.1
Benchmark	4.3	9.2	5.2
relative	+0.6	+1.7	+1.8

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 outperformed the benchmark. The three year performance also remains strong, exceeding the benchmark by 1.6% per annum.
- Once again, central London exposure, particularly to the West End and offices, made a significant contribution to the return.
- Value added funds, some of which employ moderate leverage, produced the strongest results. Core funds detracted from returns due to the transaction costs of switching between two underlying property funds (Schroder sold M&G UK Property Fund to invest in Metro PUT as they believe the Metro fund offers better performance prospects as it has increased the portfolio's exposure to South East offices where more generous investment yields are on offer).
- Whereas London has led the revival to date, Schroder also expect to see improvements in occupational markets away from the capital in 2014. They have increased the portfolios exposure to South East offices, as a shortage of Grade A offices is putting upward pressure on rents.
- Schroder expect the recovery in UK commercial property to continue through 2014, with double digit returns, partly driven by the belief that there will not be an early rise in interest rates.

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 £113 million. A total of £9.75 million was drawn down over the quarter, around half of which was to Global Real Estate 2013, the first major draw down on this fund. The draw downs commenced in September 2009.

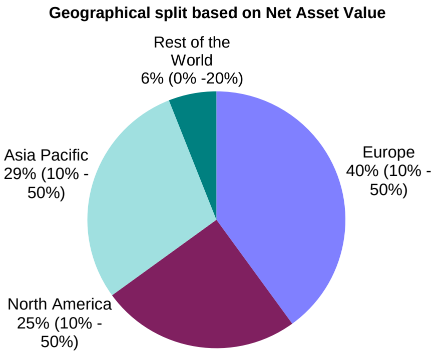
The funds invested to date have been split by Partners as follows:

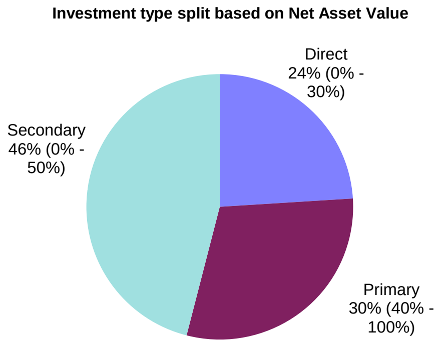
Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 December 2013 (£ Million)	Since Inception Net IRR
Real Estate Secondary 2009	16.52	17.65	11.9
Global Real Estate 2008	30.36	26.31	7.9
Asia Pacific and Emerging Market Real Estate 2009	13.84	13.08	6.9
Distressed US Real Estate 2009	14.76	12.42	9.8
Global Real Estate 2011	19.08	18.52	6.5
Direct Real Estate 2011	10.35	10.48	6.5
Real Estate Secondary 2013	3.25	3.87	19.2
Global Real Estate 2013	5.17	5.31	11.3
Total	**113.33**	**107.63**	**8.7**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 31 December 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 December 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 Europe has increased over the quarter (from 33% to 40%), with decreases in North America (from 28% to 25%) and Asia Pacific (form 32% to 29%). These remain within the guidelines.

The exposure to Secondary has increased by 4% this quarter, with both Primary and Direct decreasing by 2%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines 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 £24.28m, with distributions worth £3.47m over the most recent quarter. Performance of Partners is lagged by 1 quarter. Over Q3 2013, the manager produced a return of -3.8% compared to the benchmark of 2.4%.

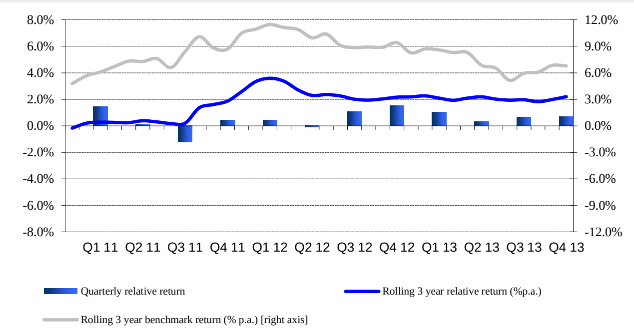
5.14 Royal London Asset Management – Fixed Interest

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

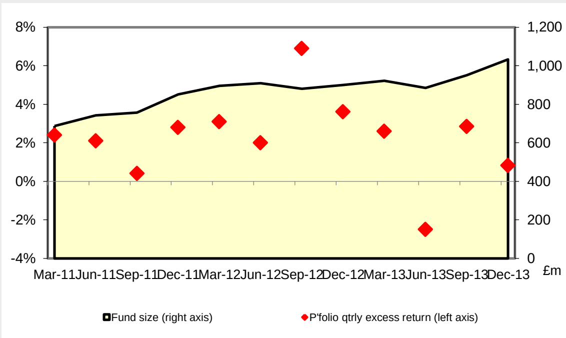
Reason in Portfolio	Reason Manager Selected
To maintain stability in the Fund as part of a diversified fixed income portfolio	■ Focused research strategy to generate added value ■ Focus research on unrated bonds provided a "niche" where price inefficiencies more prevalent ■ Product size means can be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

Value (£'000)	% Fund Assets	Number of Holdings
£242,148	7.3	250

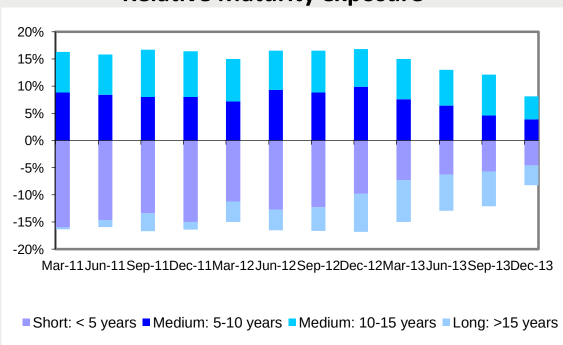
Relative returns [#1]



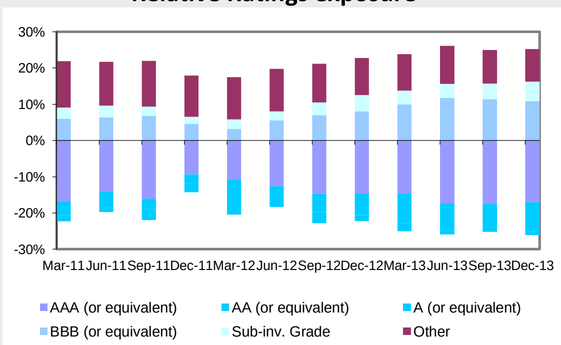
Performance v fund size [#3]



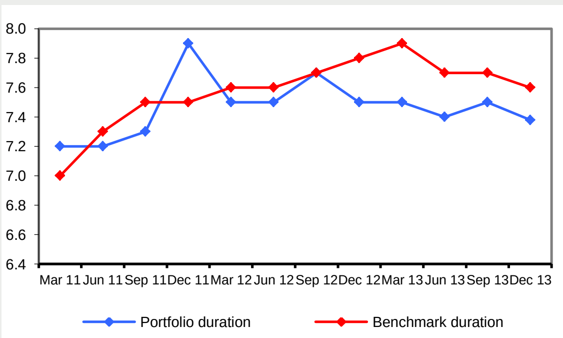
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.7	3.4	9.0
Benchmark	0.0	0.9	6.8
relative	+0.7	+2.5	+2.1

Source: Data provided by WM Performance Services, and RLAM

Comments:

- RLAM have maintained a consistent philosophy for some time - the Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds. This has benefited performance and resulted in significant outperformance at the high end of expectations for a mandate of this type.
- Similarly, RLAM favour medium term maturity bonds. This quarter they have moved to a less underweight position in long (over 15 year) bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

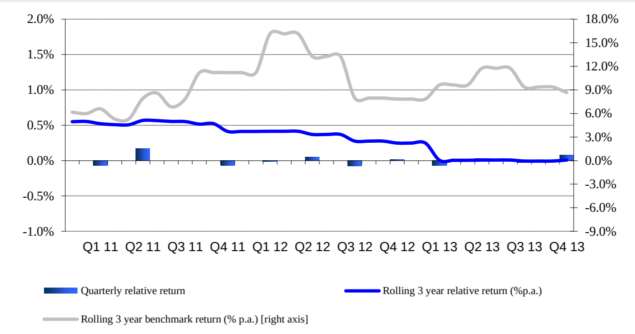
5.15 BlackRock – Passive Multi-Asset

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

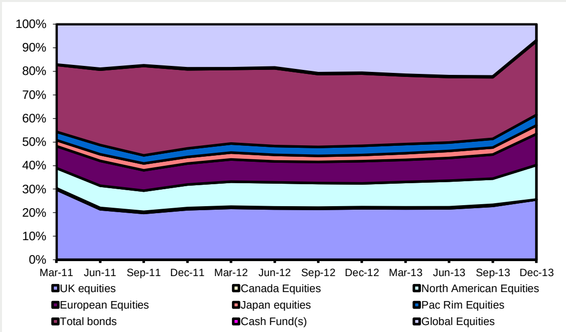
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified portfolio	■ To provide low cost market exposure across multi asset classes ■ Provide efficient way for rebalancing between bonds and equities within a single portfolio

Value (£'000)	% Fund Assets
£1,170,637	35.5

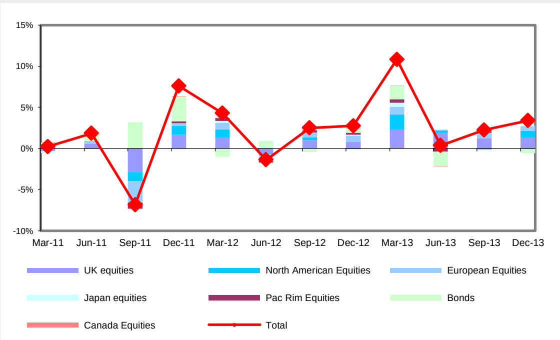
Relative returns [#1]



Asset Allocation [#5]



Contribution to absolute return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	3.5	15.0	8.7
Benchmark	3.3	14.8	8.6
relative	+0.2	+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.
- This quarter the global equity fund was sold down to fund the investments in DGFs.

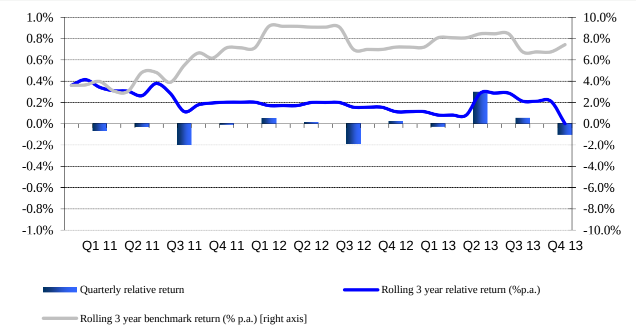
5.16 BlackRock No.2 – Property account ("ring fenced" assets)

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
£45,915	1.4

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.4	7.9	7.4
Benchmark	2.4	7.6	7.4
relative	-0.1	+0.3	0.0

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holding in US Equities decreased by 8.7% as funds were realised to invest in the Property portfolio.
- US and UK Equity Futures generated positive absolute returns, while Gilts generated a negative return.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	■ Business confidence, as measured by the Purchasing Managers Index (PMI), rose to 73.5 in December, its highest since March 2010. The PMI for the services sector stood at 58.8 in December, well above the 50 mark, separating growth from contraction. ■ The British Chamber of Commerce Quarterly Economic Survey, a major economic indicator closely watched by the Bank of England (BoE) and the Treasury upgraded its GDP growth forecast for 2014 to 2.7% in Q4 2013 from 2.2% in Q3 2013. ■ Unemployment fell more than expected in October to 7.4% (the lowest level since early 2009) from 7.6% a month earlier. The BoE has issued forward guidance indicating that interest rates are unlikely to increase above the current level of 0.5% until the unemployment rate falls to 7%.	■ Equity dividends have enjoyed an impressive lead over bond yields for some time. However, with gilt yields now on an upward trajectory and investment grade bond yields also on the rise, UK equities might face some headwinds. ■ Britain's trade deficit, plus the losses UK plc. made on its overseas ventures, rose to GBP 21 billion in Q3 from a deficit of GBP 6 billion in the previous quarter. As a percentage of GDP, the deficit was 5.1%, the largest share in more than 20 years.
Overseas Equities:		
North America	■ The US Federal Reserve (Fed) announced that it will scale back its asset purchase programme from the current USD 85 billion per month to USD 75 billion per month beginning January 2014. ■ The Fed also signalled that if the employment and inflation environment remains stable, it expects similar monthly cutbacks over the course of 2014. This would lead to a formal end to the quantitative easing programme towards the fourth quarter of 2014. ■ GDP grew by a robust 3.6% (revised) in the fourth quarter, while the unemployment level fell to 7.0% by the end of November. ■ The US congress passed a budget deal aimed at rolling back sharp spending cuts, known as the sequester, over the next two years. This will reduce the likelihood of another government shutdown in the near term.	■ The 10-year treasury yield (the benchmark interest rate) spiked over the 3% mark for the first time since July 2011 after the Fed's announcement that it plans to taper its bond-buying program. Higher interest rates could increase the cost of borrowing for the corporates and jeopardise the nascent recovery in the economy. ■ Following a 30% rally in the S&P 500 through 2013, there is some concern that equity valuations appear unsustainable.

Asset Class	What happened? Positive Factors	Negative Factors
Europe	■ The ECB surprised markets in November by cutting its main refinancing rate to a record low of 0.25%, and while it is not expected to cut the rate again, it is likely to flood the markets with another round of cheap cash early 2014. ■ Business activity in the Eurozone, as measured by the PMI, rose to 52.1 in December, recording the second-highest reading since mid-2011. ■ Ireland became the first country to exit the EU bailout programme without a precautionary credit line on December 15.	■ The PMI for the services sector, which makes up a majority of the Eurozone's economy, dipped to 51.0 in December from 51.2 in November confounding expectations for a rise to 51.5. This indicated that growth in this sector has been weaker than anticipated. ■ Services firms cut prices again in the month of November, as they have done over the last two years, to facilitate business. The output price index rose to 48.6 from 47.9, still below the break-even mark.
Japan	■ The Japanese economy grew at an annualised pace of 1.9% in Q3 2013, the fourth successive quarter of growth, lending more credibility to the expansionary monetary policy embarked upon by Prime Minister Shinzo Abe. ■ The government dropped the word 'Deflation' in its description of the economy for the first time in four years as core consumer inflation hit a five year high—past the halfway mark of the 2% target. ■ According to BOJ's quarterly survey, business confidence amongst large manufacturers surpassed expectations and rose from 12 points in Q3 to 16 points in Q4, the highest level since 2007, suggesting that economic prospects largely remain upbeat.	■ Concerns remain over the ripple effects on the economy due to the proposed sales tax hike from the current 5% to 8% beginning April 2014. ■ The real wage scenario in the country could pose a serious challenge, as rising inflation coupled with less than desired wage increases will start to erode household spending power.
Asia Pacific	■ South Korea recorded its 23rd consecutive month of trade surplus owing to strong exports, which grew by 2.2% year-on-year. This marked the highest level of annual exports in the country's history.	■ Australia's GDP grew at an annualised rate of 2.3% in the third quarter of 2013, well below the consensus forecast of 2.6%. Economists argue that the nation needs to grow at a pace above 3% to curb the recent increases in the unemployment rate which currently stands at 5.7%.

Asset Class	What happened? Positive Factors	Negative Factors
Emerging Markets	■ China, in its Third Plenum, announced sweeping reforms aimed at steering the nation from an investment-led developing nation to a consumption driven economy. The 60 point reform plan aims to achieve a sustainable growth and liberalise Chinese markets. ■ After weak performance through 2013, the emerging market space appears to be attractive from a valuation perspective. ■ China edged out the United States as the biggest trader of goods in 2013 as the value of its imports and exports crossed the USD 4 trillion mark for the year. The change in the pecking order reflects China's growing dominance in global trade. ■ India's current account deficit fell to 1.2% from 5% a year ago as the government's efforts to curb exports of non-essential commodities, particularly gold, started to yield the desired results.	■ In China, concerns grew over the domino effects of the ailments in the banking system as asset repurchase rates surged to record highs after a government official warned about possible bank failures in the coming year. ■ Taiwan cut its growth forecast for 2014 to 2.6%, down from its earlier projection of 3.4%, reflecting weak prospects for one of the most export-oriented economies in the region. ■ Most emerging market economies still face headwinds due to inflationary pressures and are raising interest rates to combat high prices. Brazil raised its interest rates for the sixth time since March 2012, while Indonesia raised interest rates to the highest level since 2009. ■ Brazil's GDP shrank in Q3 2013 by 0.5% due to worsening fiscal imbalances, higher than target inflation and rising interest rates in the economy.
Gilts	■ UK's GDP expanded by 0.8% in the third quarter, the strongest reading in over three years. Meanwhile, the International Monetary Fund (IMF) significantly upgraded Britain's growth outlook to 1.4% in 2013 and 1.9% in 2014.	■ Market interest rates are expected to rise much sooner than expected as the BoE has brought forward its forecast for a drop in the unemployment to 7% by around 18 months from what was previously expected.
Index Linked Gilts	■ With limited supply of paper and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	■ UK inflation continued to decline, reaching 2.0% in December 2013, affecting returns on index-linked instruments. ■ 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	■ Corporations continue to maintain healthy balance sheets. While, the relatively attractive yield from parts of the corporate bond market continue to attract investor interest.	■ The corporate bond market still suffers from liquidity constraints while uncertainty looms over interest rate increases.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Property	▪ In November 2013, the UK commercial property values registered their highest monthly gain since March 2010, marking seven consecutive months of rises in values. ▪ Mortgage approvals in the UK rose to about a six-year high in November 2013. House prices are rising across the country with the fastest growth rate seen in London where prices are now 14% above their previous peak in 2007. ▪ The Construction PMI hit 62.6 in November 2013—the highest reading since August 2007.	▪ According to the changes to the capital gains tax structure announced by the chancellor George Osborne, foreign owners will be required to pay tax on gains in value on the UK properties starting April 2015. This move may dampen overseas investor sentiment into UK property market.

Economic statistics

	Quarter to 31 December 2013			Year to 31 December 2013		
	UK	Europe(1)	US	UK	Europe(1)	US
Real GDP growth	0.7%	n/a	0.8%	2.8%	n/a	2.7%
Unemployment rate	7.1%	11.1%(4)	6.7%	7.1%	11.1%(4)	6.7%
Previous	*7.7%*	*11.1%*	*7.3%*	*7.7%*	*11.0%*	*7.8%*
Inflation change(2)	0.5%	0.2%	-0.5%	2.0%	0.9%	1.5%
Manufacturing Purchasing Managers' Index	57.3	52.7	57.0	57.3	52.7	57.0
Previous	*56.7*	*51.1*	*56.2*	*51.4*	*47.5*	*50.7*
Quantitative Easing / LTRO (3)	£375bn	€1,018bn	$3,794bn	£375bn	€1,018bn	$3,794bn
Previous	*£375bn*	*€1,018bn*	*$3,539bn*	*£375bn*	*€1,018bn*	*$2,774bn*

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

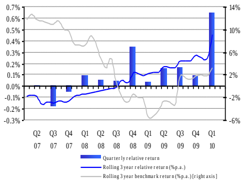
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and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

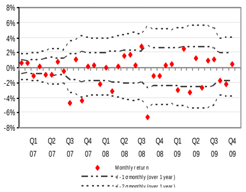
Reference **Description**

#1



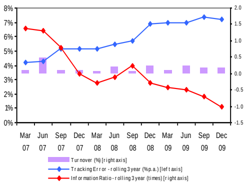
This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey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

#2



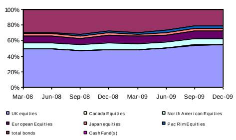
This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods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



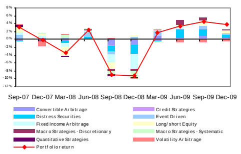
This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken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

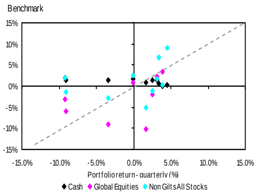


This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.

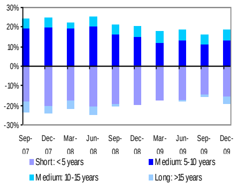
#6



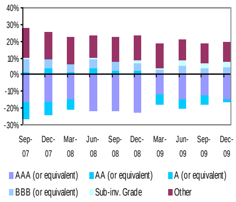
These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total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

#7


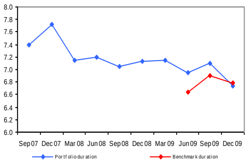
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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