Avon Pension Fund

Review for period to 31 March 2014

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. An annual version of this report will be reported to the full Committee meeting.

Fund performance

- The value of the Fund's assets increased by £31m over the first quarter of 2014 to £3,330m.

Strategy

- Equity markets were mixed over the last quarter, with Western developed markets performing the best. Returns ranged from +2.4% (Europe) to -6.0% (Japan). Emerging market equities produced a negative return of -1.0% over the quarter, partly a result of a weakening of domestic and export demand in China.
- Over the last twelve months, European and US equities produced double-digit returns of 15.7% and 11.3% respectively. Negative returns came from equities in emerging markets (-9.9%), Asia Pacific (-6.5%) and Japan (-1.6%).
- 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 three years.
- Gilt and corporate bond markets produced positive returns, as bond yields fell due to market sentiment proving weaker than was anticipated. Over the three year period returns remain ahead of the assumed strategic return. However, note that over the coming quarters the higher returns from the second half of 2011 will start to fall out of the analysis and the rolling three year return is expected to fall, all else being equal.
- The Overseas Fixed Interest return has moved back to positive territory, at 0.3% p.a. over three years. Both European and US bonds produced positive returns over the last quarter, but the longer-term return is still affected by rising yields.
- Hedge funds remain below the assumed strategic returns and Panel are currently reviewing the Hedge Fund Portfolio. The Property return has moved further ahead of the assumed strategic return as property produced a return of 14.0% over the last 12 months.
- The strengthening of Sterling against the US dollar and Euro meant that the impact of currency hedging has had a beneficial impact, reducing the negative effect of currency movements.
- Over the most recent quarter, Record have underperformed against a 50% hedge of each of the three currencies.

Managers

- Absolute returns from the managers were mixed over the last quarter, with the non-equity funds generally faring better. The best performers were RLAM bonds (3.2%), Schroder Property (3.1%) and SSgA Europe (3.1%). The UK equity managers produced negative returns (Jupiter -1.6% and TT -0.2%), with the lowest quarterly return from SSgA Pacific (-2.8%).

- Over one-year, the developed equity managers performed best; the highest one-year return came from SSgA Europe (19.4%).
- The one-year SSgA Pacific and Genesis returns were affected by relatively poor returns in Asia and the emerging markets. The absolute SSgA Pacific one-year return is now negative at -3.7% (falling from 14.8%) and the Genesis emerging equity one-year return has fallen further from -1.2% to -8.5%. The poor absolute performance is solely due to market impact as both managers outperformed their benchmarks over one year.
- SSgA Pacific and Genesis' returns over the longer three year period were also well below Western developed equities. SSgA Pacific's return was 4.2% p.a. and Genesis' was -0.5% p.a. This is due to market returns and both managers have outperformed their benchmarks over this period, meeting their objectives.
- TT outperformed over three years (by 2.8% p.a.) but this was marginally below their performance target of +3-4% p.a. 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 outperformed their benchmark over one year.
- The Schroder Global Equity Portfolio has not yet been in place for three years but has underperformed its target over the period since inception, April 2011.

Key points for consideration

- The Fund doubled its exposure to emerging markets over the quarter through a £165m allocation to Unigestion. Performance for this portfolio will be reported from the next quarter.
  - Events in Ukraine support the Fund's decision to invest in emerging markets through active managers who can take account of such events in their stock selection.
  - Emerging market equities are expected to continue to be volatile, with events in Ukraine and slowing growth in China contributing to volatility. However, strong demographics, favourable debt levels (compared to many developed markets) and higher growth rates (albeit slower than previously) are key reasons the allocation is expected to outperform developed markets over the long term.
- Events in Ukraine have not materially negatively impacted wider equity markets as yet but the situation should continue to be monitored.
- In April it was announced that the Financial Conduct Authority fined Invesco £18.6m for breaches in their risk systems. The issue has not impacted the Fund's investment in the Global ex UK Enhanced Indexation Fund but a further update will be provided following meetings between JLT and Invesco later in the quarter.
- Schroder announced in April the appointment of Alex Tedder as Head of Global Equity to replace some of the management responsibilities that Virginie Maisonneuve previously undertook. Such an appointment was consistent with the message Schroder provided following Virginie's departure.
- In May, Schroder announced the promotion of Peter Harrison from Head of Equities to Head of Investment. His previous role will be taken on by an external appointment, Nicky Richards (previously Chief Executive and Chief Investment Officer at MLC Investment Management).
  - The progress of Peter within Schroder is not a surprise, albeit this was not necessarily expected to occur imminently.
  - It is expected that Peter, in his new role, will continue shaping the global equity team and, in that regard, he is expected to have been closely involved in Nicky's appointment.

2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of March 2014.

Market Statistics

Yields as at 31 March 2014	% p.a.
UK Equities	3.41
UK Gilts (>15 yrs)	3.43
Real Yield (>5 yrs ILG)	-0.10
Corporate Bonds (>15 yrs AA)	4.29
Non-Gilts (>15 yrs)	4.60

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.13	0.06	0.45
UK Gilts (>15 yrs)	-0.15	0.41	-0.87
Index-Linked Gilts (>5 yrs)	-0.13	0.33	-0.73
Corporate Bonds (>15 yrs AA)	-0.13	0.24	-1.24
Non-Gilts (>15 yrs)	-0.03	0.37	-0.93

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	3.4	-3.1	8.7
Index-Linked Gilts (>5 yrs)	3.6	-4.4	9.0
Corporate Bonds (>15 yrs AA)	2.7	1.5	8.8
Non-Gilts (>15 yrs)	2.7	1.1	8.9

* Subject to 1 month lag

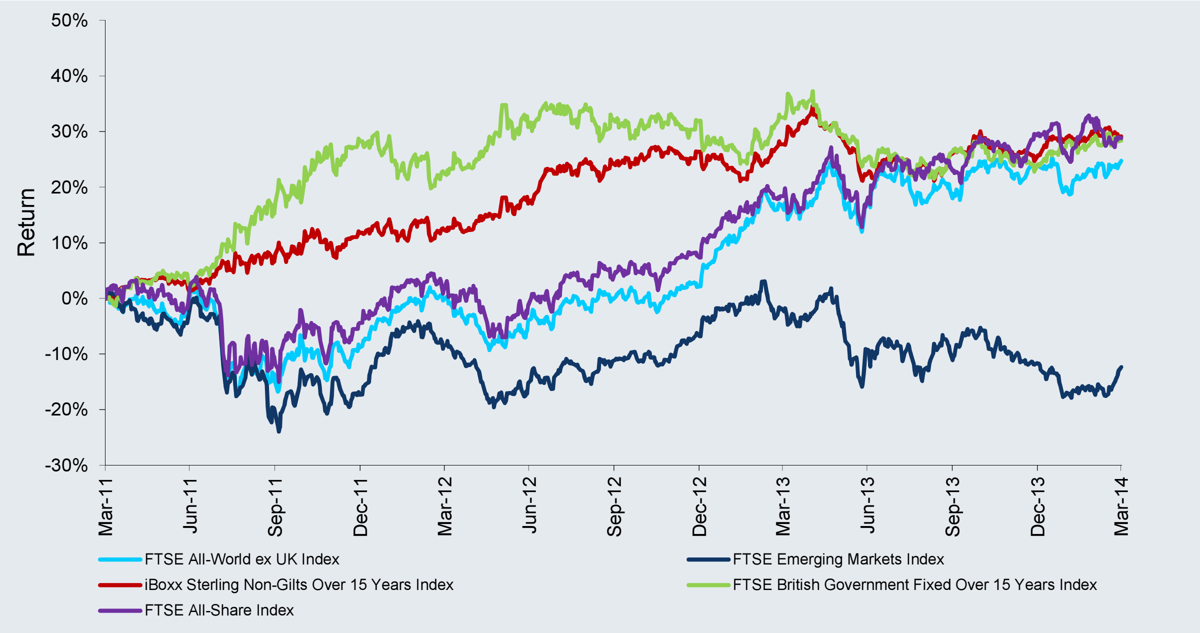
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.6	8.8	8.8
Overseas Equities	0.7	6.8	7.6
USA	1.2	11.3	13.3
Europe	2.4	15.7	6.1
Japan	-6.0	-1.6	4.3
Asia Pacific (ex Japan)	0.4	-6.5	0.8
Emerging Markets	-1.0	-9.9	-3.8
Property	3.9	14.0	7.6
Hedge Funds	1.0	7.2	4.7
Commodities	2.3	-7.9	-4.7
High Yield	2.2	-0.7	7.6
Emerging Market Debt	3.7	0.6	7.1
Senior Secured Loans	0.6	7.0	5.0
Cash	0.1	0.4	0.5

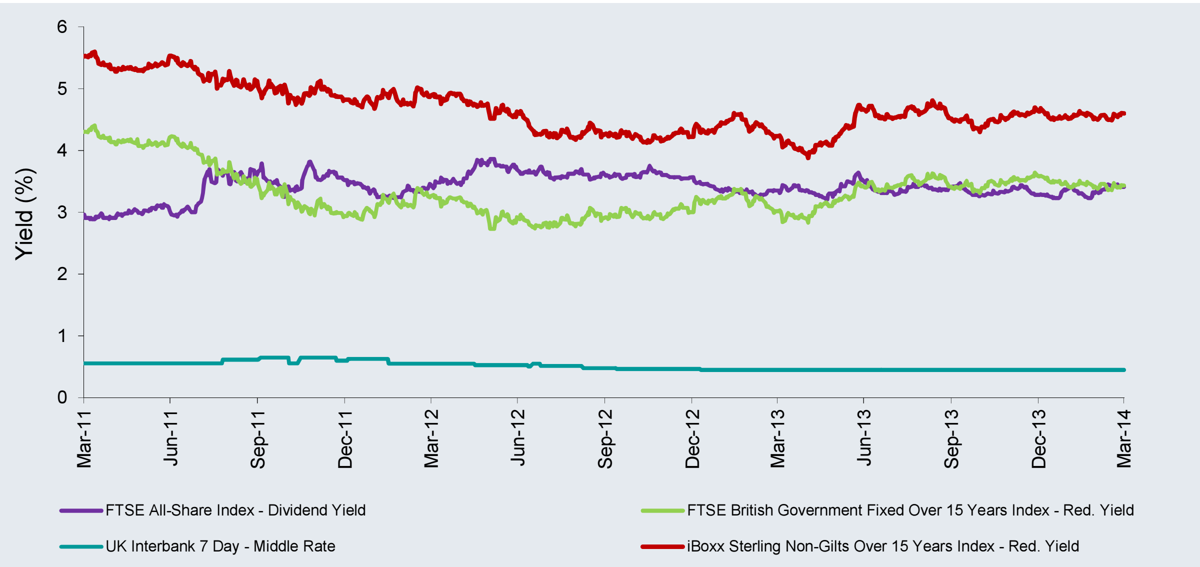
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	0.7	9.8	1.3
Against Euro	0.6	2.3	2.3
Against Yen	-1.4	20.3	8.9

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.5	3.1
Price Inflation – CPI	0.1	1.6	2.6
Earnings Inflation *	0.9	2.0	1.5

Market Summary charts



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



The trend over the last 3 years until the end of April 2013 shows falling UK gilts and the corporate bond yields whilst the dividend yield on the FTSE All-Share Index has risen. The bond yields have firmed up in the last 11 months whilst the dividend yield has remained relatively flat.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 March 2014, 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	9.2	Ahead of the assumed strategic return following strong returns throughout the period apart from mid-2011. The return was only 0.7% in the first quarter of 2014 as corporate earnings and GDP growth expectations were lower than anticipated and the crisis in Ukraine hurt the global risk appetite.
Emerging Market Equities	8.75	-3.8	The 3-year return from emerging market equities remains negative due to the sentiment from slowing growth and a weakening of domestic and export demand in China.
Diversified Growth	Libor + 4%	4.8	Over the last three years DGFs have generally performed around Libor + 4% p.a. due to strong equity markets over the last two years and alternative assets, such as high yield, performing well in 2012. Commodities and hedge funds have performed less well.
UK Gilts	4.5	8.7	Ahead of the assumed strategic return mainly as a result of the fall in gilt yields during the second half of 2011. The three year returns are higher than last quarter as the negative returns from Q1 2011 have fallen out of the analysis, however over the coming quarters the higher returns from the second half of 2011 will start to fall out. The UK gilt return over two years to March 2014 is only 2.3% p.a.
Index Linked Gilts	4.25	9.0	
UK Corporate Bonds	5.5	7.4	
Overseas Fixed Interest	5.5	0.3	Well behind the assumed strategic return, but back into positive territory following a positive return in Q1 2014. US bonds performed well during the quarter as fears over the impact of 'tapering' waned and US inflation remained benign. In Europe, increased central bank activism resulted in positive performance in both the core and peripheral bond markets. The longer-term three year return is 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, since Q3 2012 returns have been steady at around 1 to 3% per quarter.
Property	7.0	7.6	This has now moved further ahead of the assumed strategic return. The return over the last 12 months has been 14.0%.

Source: Statement of Investment Principles, Thomson Reuters.

See appendix A for economic data and commentary.

3 Fund Valuations

The table below shows the asset allocation of the Fund as at 31 March 2014, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets “ring fenced” for investment in property) split between the relevant asset classes.

Asset Class	31 March 2014 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,567,935	47.1	40.0
Emerging Market Equities	311,776	9.4	10.0
Diversified Growth Funds (DGF)	314,340	9.4	10.0
Bonds	640,599	19.2	20.0
Fund of Hedge Funds	162,986	4.9	5.0
Infrastructure	-	-	5.0
Cash (including currency instruments)	71,739	2.2	-
Property	260,987	7.8	10.0
TOTAL FUND VALUE	**3,330,362**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £31m over the first quarter of 2014 to £3,330m. £165m was invested into Emerging Market Equities.
- In terms of the asset allocation, the investment in Unigestion, funded from Blackrock, has increased the Emerging Market Equity allocation by 5.0% to 9.4%. The Developed Market Equity allocation has decreased by 5.0%.
- Relative market movements has increased the allocation to bonds from 18.8% to 19.3%.
- Deviations from the strategic benchmark weight will continue during the period that changes to the investment strategy, agreed in 2013, are implemented.
- An allocation to infrastructure is expected to be built up over time.

Manager	Asset Class	31 December 2013 Value £'000	31 December 2013 Proportion of Total %	Net new money £'000	31 March 2014 Value £'000	31 March 2014 Proportion of Total %
Jupiter	UK Equities	163,577	5.0	-	160,880	4.8
TT International	UK Equities	185,688	5.6	-	185,267	5.6
Invesco	Global ex-UK Equities	236,622	7.2	-	239,795	7.2
Schroder	Global Equities	215,489	6.5	-	214,480	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	107,799	3.3	-	107,146	3.2
Genesis	Emerging Market Equities	145,731	4.4	-	145,088	4.4
MAN	Fund of Hedge Funds	1,651	0.1	-	1,115	0.0
Signet	Fund of Hedge Funds	66,477	2.0	-	66,155	2.0
Stenham	Fund of Hedge Funds	37,657	1.1	-	37,654	1.1
Gottex	Fund of Hedge Funds	56,953	1.7	-	58,062	1.7
BlackRock	Passive Multi-asset	1,170,637	35.5	-156,062	1,026,945	30.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	45,915	1.4	-	45,643	1.4
RLAM	Bonds	242,148	7.3	-	249,851	7.5
Schroder	UK Property	146,148	4.4	-	150,249	4.5
Partners	Property	105,871	3.2	-	112,058	3.4
Record Currency Mgmt	Dynamic Currency Hedging	21,421	0.6	-	12,044	0.4
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	9,092	0.3	-	15,988	0.5
Pyrford	DGF	104,320	3.2	-	104,542	3.1
Barings	DGF	210,866	6.4	-	209,798	6.3
Unigestion	Emerging Market Equities	-	-	165,000	166,687	5.0
Internal Cash	Cash	24,807	0.8	-8,938	20,915	0.6
Rounding		-1	-	-	-	-
TOTAL		**3,298,868**	**100.0**	**0**	**3,330,362**	**100.0**

Source: Avon Pension Fund Data provided by WM Performance Services

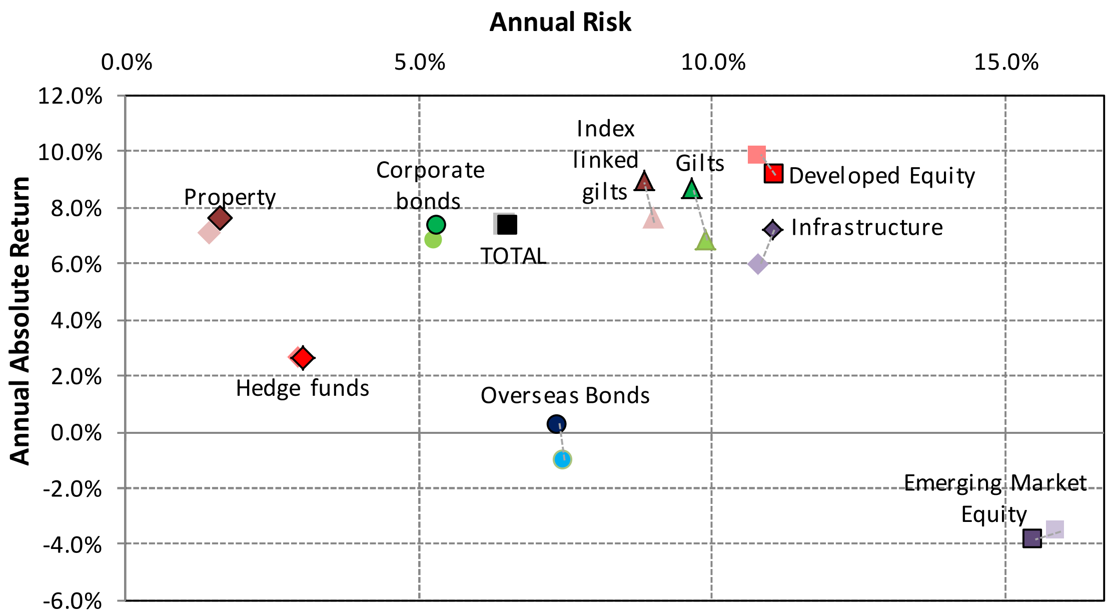
4 Performance Summary

Risk Return Analysis

The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2014 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.

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

3 Year Risk v 3 Year Return to 31 March 2014

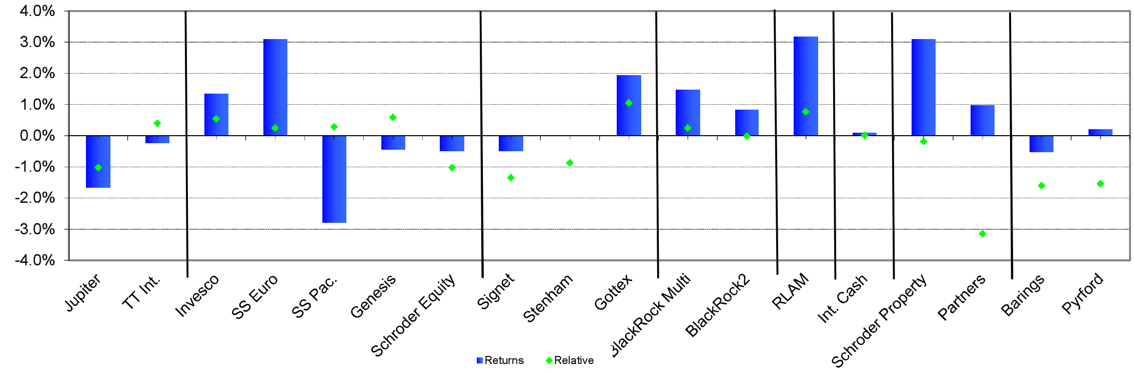


- Since last quarter, this chart has been amended to include Developed Equity and Emerging Market Equity (rather than UK and Overseas), in line with the new strategy. Infrastructure has also been included, although note that this is the listed FTSE MACQ Global Infrastructure Index, whereas in practice actual investments will be unlisted.
- Developed equities remain the best performing asset class over three years, closely followed by index-linked gilts, conventional gilts and property.
- Emerging market equity remained the worst performing asset class.
- The three-year returns of gilts and bonds rose as yields fell due to a weaker market sentiment following the events in Ukraine. Overseas bonds returned to a positive three-year absolute return.
- The hedge fund index continues to produce steady returns, with very little change in the rolling 3 year return.
- In terms of risk, the three-year volatility has remained broadly stable for each asset class in the above chart.
- The three-year return on developed equities, gilts, index-linked gilts, corporate bonds and property remain above their assumed strategic return. Overseas bonds and hedge funds remain below their assumed strategic return, with emerging market equities well below.

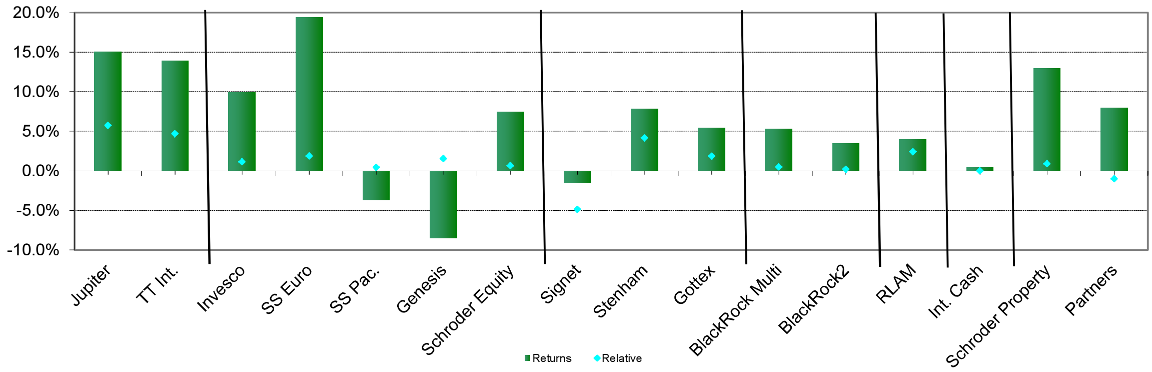
Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of March 2014. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

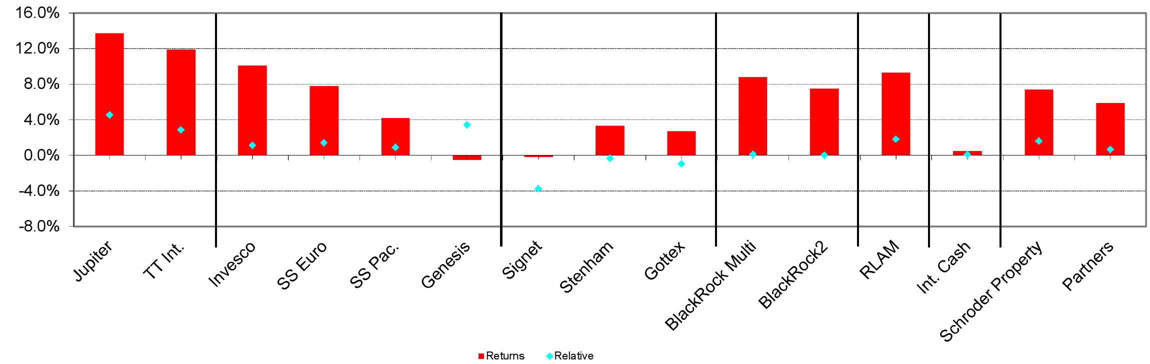
Absolute and relative performance - **Quarter to 31 March 2014**



Absolute and relative performance - **Year to 31 March 2014**



Absolute and relative performance - **3 years to 31 March 2014**



Source: Data provided by WM Performance Services

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of March 2014. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

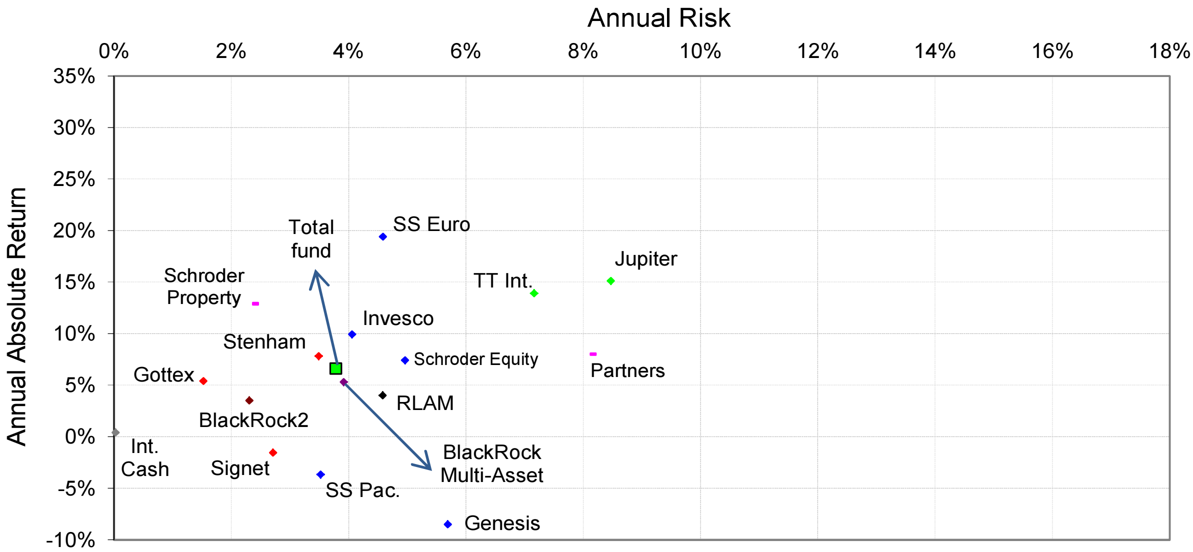
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	-1.0	+5.7	+4.5	Target met
TT International	+0.4	+4.7	+2.8	Target not met
Invesco	+0.5	+1.2	+1.1	Target met
SSgA Europe	+0.2	+1.9	+1.4	Target met
SSgA Pacific	+0.3	+0.4	+0.9	Target met
Genesis	+0.6	+1.6	+3.4	Target met
Schroder Equity	-1.0	+0.6	NA	N/A
Signet	-1.3	-4.9	-3.8	Target not met
Stenham	-0.9	+4.2	-0.3	Target not met
Gottex	+1.1	+1.8	-1.0	Target not met
BlackRock Multi - Asset	+0.2	+0.5	+0.1	Target met
BlackRock 2	0.0	+0.2	0.0	Target met
RLAM	+0.8	+2.5	+1.8	Target met
Internal Cash	0.0	0.0	+0.1	N/A
Schroder Property	-0.2	+0.9	+1.6	Target met
Partners Property	-3.1	-1.0	+1.1	N/A
Barings	-1.6	NA	NA	N/A
Pyrford	-1.5	NA	NA	N/A

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

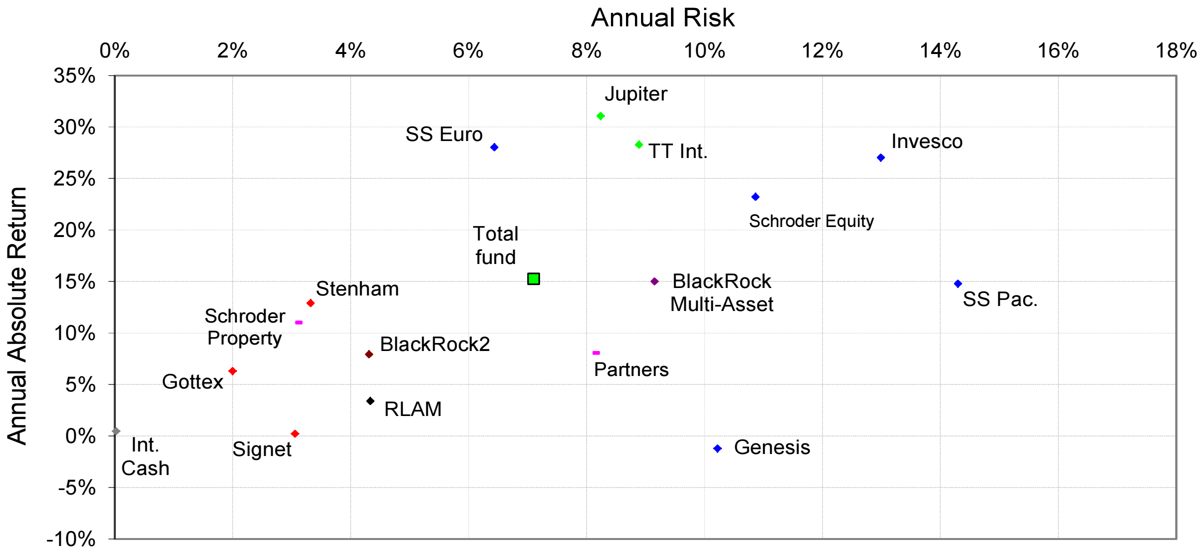
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2014 of each of the funds. We also show the same chart, but with data to 31 December 2013 for comparison.

1 Year Risk v 1 Year Return to 31 March 2014



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 December 2013



Source: Data provided by WM Performance Services

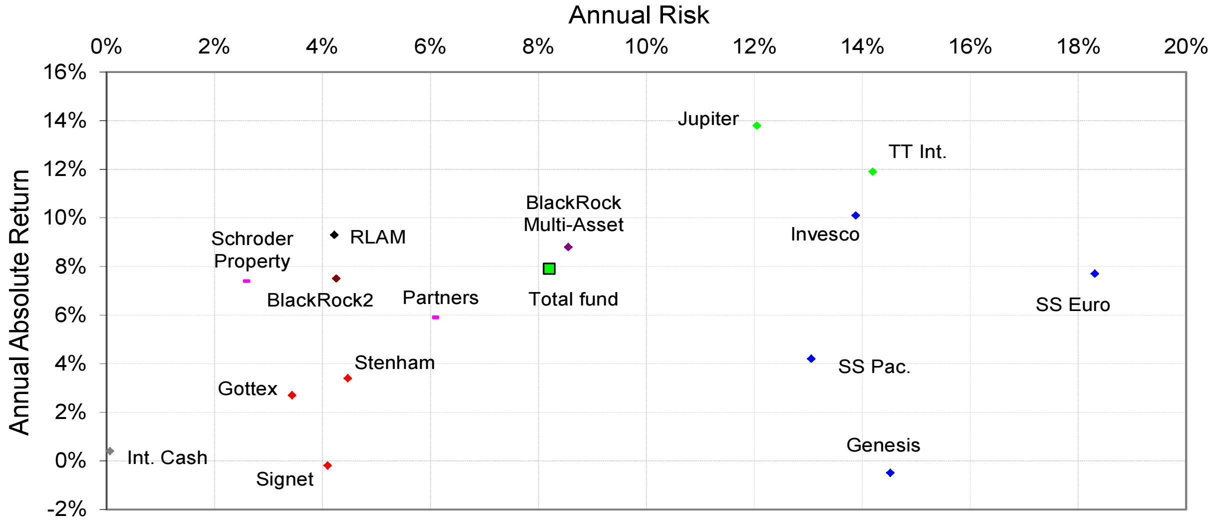
The managers are colour coded by asset class, as follows:

- 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 return came from SSgA Europe (19.4%) followed by the two UK equity managers, with Jupiter at 15.0% and TT at 13.9%. However these returns, along with the other equity manager returns, are significantly below the one-year returns in last quarter's report, which were around 30% for the UK and European managers.
- The SSgA Pacific and Genesis portfolios were affected by relatively poor returns in Asia and the emerging markets. The absolute SSgA Pacific one-year return is now negative at -3.7% (falling from 14.8%) and the Genesis emerging equity one-year return has fallen further from -1.2% to -8.5%. However, both managers outperformed their respective benchmarks.
- The Blackrock multi-asset fund one-year return also fell, from 15.0% to 5.3%.
- The only improvements came from the Schroders Property (up from 11.0% to 12.9%) and RLAM bonds (up from 3.4% to 4.0%)
- The one year-risk figures have generally fallen, as markets have become more stable, albeit 12 months is a short period for such a measure. The risk figures for SSgA Pacific, Invesco and Blackrock multi-asset fell significantly compared to last quarter.
- The annual risk has fallen sharply for the equity managers because Q1 2013 saw double-digit equity returns, whereas returns since then have been lower but more stable. Hence stripping Q1 2013 out of the analysis has a material impact on the risk figures.

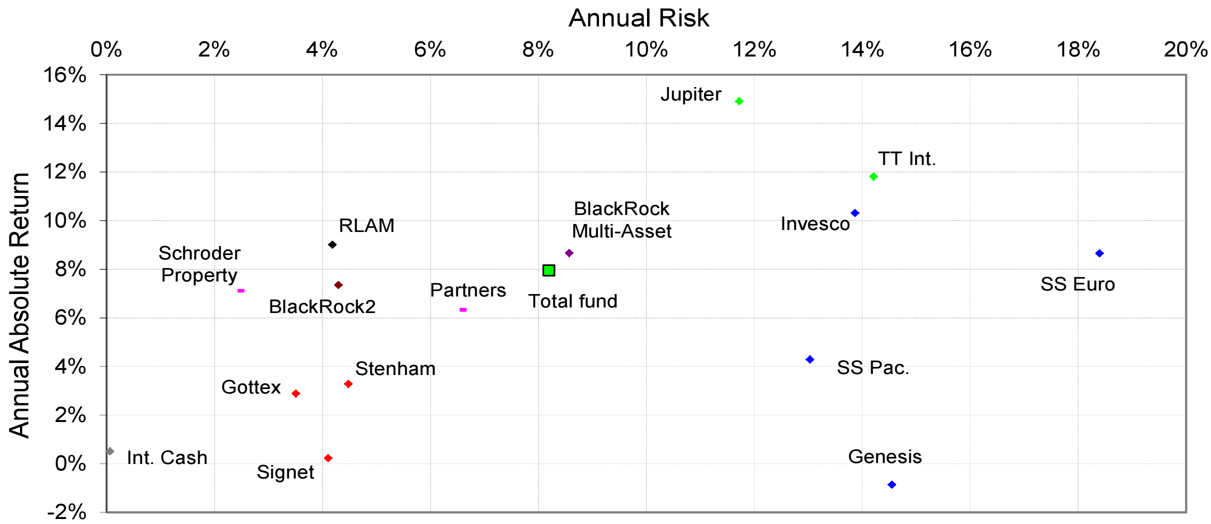
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of March 2014 of each of the funds. We also show the same chart, but with data to 31 December 2013 for comparison.

3 Year Risk v 3 Year Return to 31 March 2014



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 December 2013



Source: Data provided by WM Performance Services

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

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- Grey: internally managed cash — Pink: Property
- Green Square: total Fund

- The three-year returns have remained reasonably stable.
- Jupiter's three-year return fell by 1.2% p.a. (from 14.9% p.a. to 13.7% p.a.) and SSgA Europe fell by 0.9% p.a. (from 8.7% p.a. to 7.8% p.a.).
- For all of the Fund's other managers, there was less than 0.5% p.a. change in the three-year return.
- The three-year risk figures remained very stable, with the largest change being 0.3% (from Jupiter). 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 were from the equity and property funds. The one-year return was positive in absolute terms from all managers except for Genesis and SSgA Pacific, albeit both outperformed their respective benchmarks.
- The three-year returns were broadly consistent with those seen last quarter.
- Over three years, the best performers remain the developed equity managers, with Jupiter, TT and Invesco all above 10% p.a.
- Genesis had the lowest three-year return at -0.5% p.a. Next lowest was the hedge funds, between 0% p.a to 4% p.a.
- The fund of hedge fund, bond and property managers continue to provide low volatility over both the 1 and three year period.
- Over the longer three year period, the three fund of hedge funds managers have underperformed our asset class assumed strategic return and also underperformed their target.
- Genesis and SSgA Pacific have also underperformed our asset class assumed strategic return over three years, but both have outperformed their individual targets.

5 Individual Manager Performance

This section provides a one page summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix A, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in Appendix B, which shows the benchmark and outperformance target for each fund.

Key points for consideration

- The Fund doubled its exposure to emerging markets over the quarter through a £165m allocation to Unigestion. Performance for this portfolio will be reported from the next quarter.
- In April it was announced that the Financial Conduct Authority fined Invesco £18.6m for breaches in their risk systems. The issue did not impact the Fund's investment in the Global ex UK Enhanced Indexation Fund but a further update will be provided following meetings between JLT and Invesco later in the quarter.
- Schroder announced in April the appointment of Alex Tedder as Head of Global Equity to replace some of the management responsibilities that Virginie Maisonneuve previously undertook. Such an appointment was consistent with the message Schroder provided following Virginie's departure.
- In May, Schroder announced the promotion of Peter Harrison from Head of Equities to Head of Investment. His previous role will be taken on by an external appointment, Nicky Richards (previously Chief Executive and Chief Investment Officer at MLC Investment Management).
  - The progress of Peter within Schroder is not a surprise, albeit this was not necessarily expected to occur imminently.
  - It is expected that Peter, in his new role, will continue shaping the global equity team and, in that regard, he is expected to have been closely involved in Nicky's appointment.
- In their first full quarter, the diversified growth funds produced mixed returns, albeit consistent with their styles.
  - Barings tactical overweight position to emerging markets and Japan detracted over the quarter, albeit it is too early to judge these decisions.
  - Pyrford produced a marginal positive absolute return, outperforming some equity markets whilst underperforming others.
- The three hedge fund managers each produced a negative relative return over three years and so did not meet their target, although Stenham and Gottex both outperformed their benchmark over one year.
- All of the Fund's other managers met their target apart form TT, who outperformed over three years (by 2.8% p.a.) but this was marginally below their performance target of +3-4% p.a.
- The Schroder Global Equity Portfolio has not yet been in place for three years but has underperformed its target over the period since inception, April 2011.

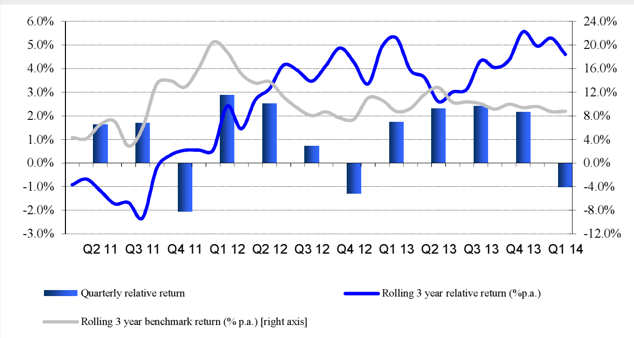
5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

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

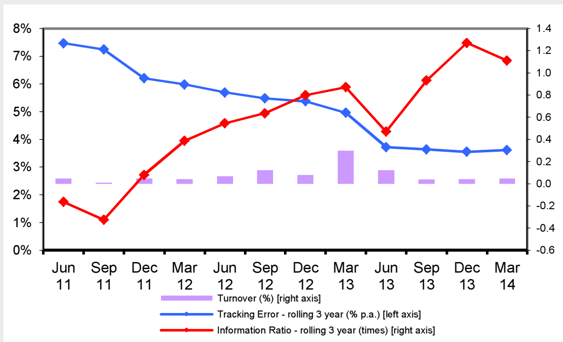
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear and robust approach to evaluating SRI factors within the investment process ■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities ■ Corporate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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£160,880	4.8	3.6%	58

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.6	15.0	13.7
Benchmark	-0.6	8.8	8.8
Relative	-1.0	+5.7	+4.5

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

Comments:

- Jupiter continue to significantly outperform 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 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. At 31 March 2014, Jupiter remained significantly underweight in Oil & Gas, Consumer Goods and Basic Materials, with significant overweight positions in Consumer Services, Telecommunications and Industrials.
- There was a decrease in the information ratio over the quarter as the three-year relative return decreased from 5.1% p.a. to 4.6% p.a.

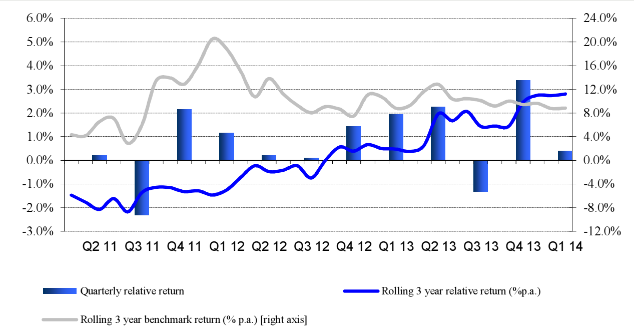
5.2 TT International – UK Equities (Unconstrained)

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

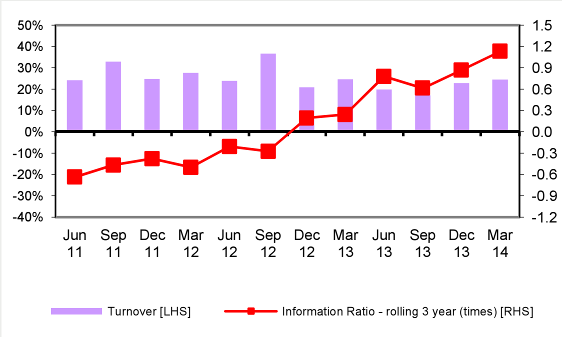
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Favoured the partnership structure that aligns managers and Fund's interests. ■ Focussed investment activity and manages its capacity ■ Clear, robust stock selection and portfolio construction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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£185,267	5.6	2.7%	56

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.2	13.9	11.9
Benchmark	-0.6	8.8	8.8
Relative	+0.4	+4.7	+2.8

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 has moved further towards the 3 year performance target.
- The Fund held an overweight position in Industrials, Consumer Services, Consumer Goods and Technology by 8.3%, 3.1%, 2.6% and 2.0% respectively, whilst was underweight in Oil & Gas, Health Care, Financials and Utilities by 6.5%, 4.4%, 3.6% and 2.5% respectively, at the end of the quarter.
- Turnover, over the first quarter, increased to 24.5% compared to the last quarter's number of 22.8%.
- The 3 year tracking error (proxy for risk relative to the benchmark) has decreased slightly in Q1 2014, from 2.76% to 2.69%.
- The 3 year information ratio has increased from 0.87 to 1.13, demonstrating an increase in the relative return.

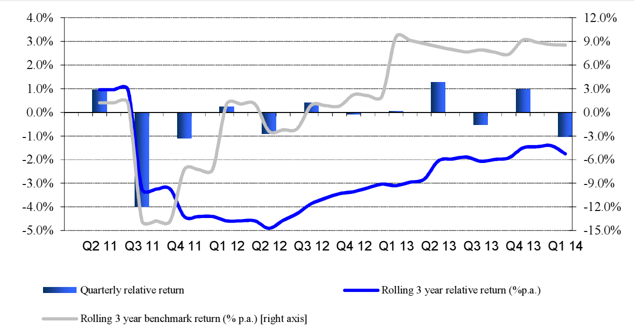
5.3 Schroder – Global Equity Portfolio (Unconstrained)

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
£214,480	6.4	N/A	N/A

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.5	7.4	N/A
Benchmark	0.5	6.7	N/A
Relative	-1.0	+0.6	N/A

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

Comments:

- The return was below the benchmark over the quarter, producing a negative return against a positive benchmark. Over the 1 year the fund outperformed, but performance was below benchmark since inception.
- Japanese stocks contributed to the underperformance, such as banking group SMFG and house builder Sekisui House. Schroder believe that markets are being too short term and overly pessimistic in their assessment of these stocks and have taken the opportunity to add to their holding in Sekisui House.
- Russian bank Sberbank was the worst performer given increasing tensions between Russia and Ukraine, however Schroder continue to have strong conviction in the company.
- The rally in peripheral Europe has also continued to hurt performance given their cautious approach to the area.
- Positives came from the emerging markets, driven by holdings exposed to Indonesia and Brazil.
- Schroder are positioned for an improvement in global growth throughout 2014. They are positioned for US interest rate rises.
- They see the main risks from slow growth in China and Russian intervention in the Crimea.

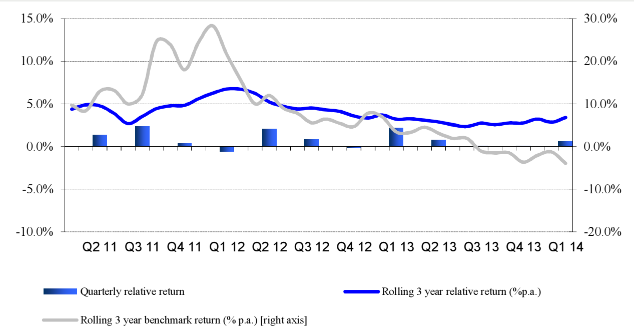
5.4 Genesis Asset Managers – Emerging Market Equities

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

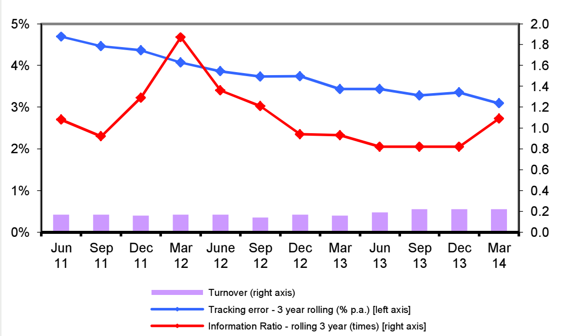
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Long term investment approach which takes advantage of evolving growth opportunities ▪ Niche and focussed expertise in emerging markets ▪ Partnership structure aligned to delivering performance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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£145,088	4.4	3.1%	158

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.4	-8.5	-0.5
Benchmark	-1.0	-9.9	-3.8
relative	+0.6	+1.6	+3.4

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

Comments:

- Genesis have achieved significant outperformance of the benchmark over 3 years.
- The Fund is overweight to India and South Africa, while underweight to South Korea, Russia 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) decreased to 3.1% in Q1 2014. The three year information ratio (risk adjusted return), has increased by 0.3 to 1.1.
- The allocation to Cash (2.1%) increased compared to the previous quarter (1.4%).
- On an industry basis, the Fund is overweight Consumer Staples (+7.7%), Materials (+6.7%), Health Care (+2.8%) and Financials (+1.2%). The Fund is underweight to Consumer Discretionary (-5.7%), Energy (-4.2%), Telecom Services (-4.2%), Industrials (-2.5%) and Utilities (-3.2%).

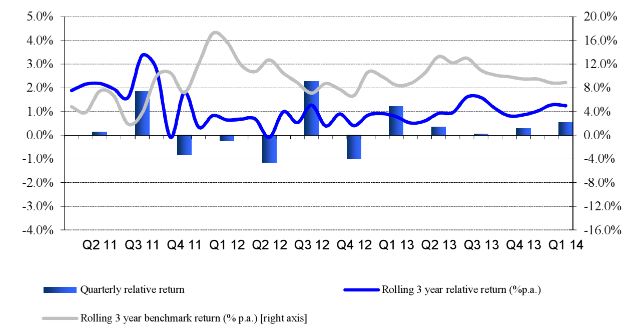
5.5 Invesco – Global ex-UK Equities (Enhanced Indexation)

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

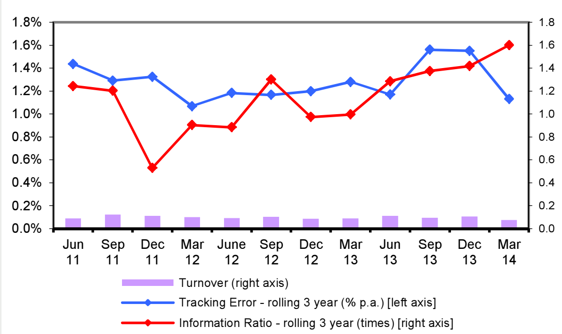
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis ▪ One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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£239,795	7.2	1.1%	393

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.3	9.9	10.1
Benchmark	0.8	8.6	8.9
relative	+0.5	+1.2	+1.1

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

Comments:

- The Fund has outperformed over the last quarter and remains above its outperformance target over 3 years.
- Stock selection was the main contributor to outperformance over the quarter.
- The absolute volatility over 1 year has decreased to 9.7% at the end of the first quarter of 2014 compared to 11.4% at the end of the fourth quarter of 2013.
- The turnover for this quarter of 7.5% has decreased from 10.5% in the previous quarter. The number of stocks (393) 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 +/- 1.2% of benchmark weightings.

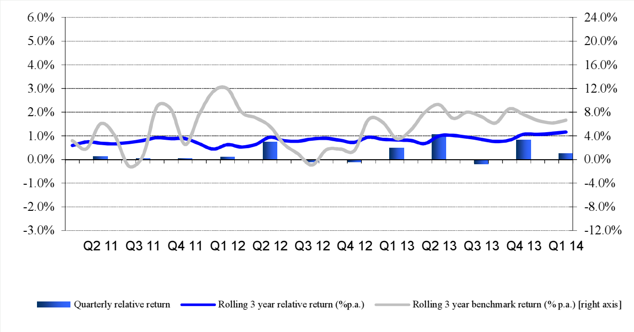
5.6 SSgA – Europe ex-UK Equities (Enhanced Indexation)

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

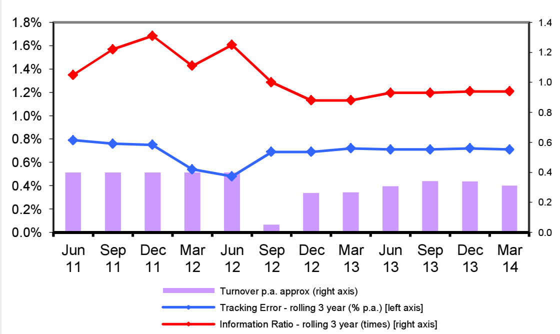
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£41,140	1.2	0.7	212

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	3.1	19.4	7.8
Benchmark	2.9	17.2	6.3
Relative	+0.2	+1.9	+1.6

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 – allocation of all the three countries is more or less similar to the benchmark allocation.
- The total pooled fund size on 31 March 2014 was £41.22m, increasing over the last quarter but 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 decreased from 33.9% to 31.2%, but remains consistent with levels 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.

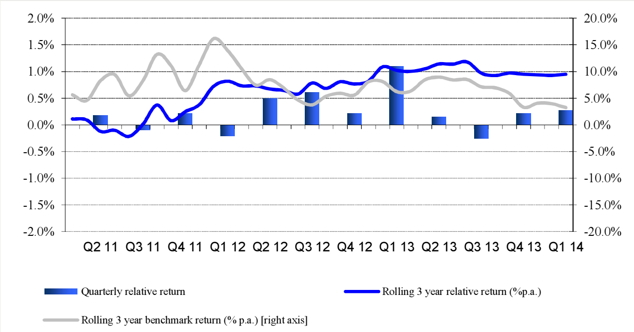
5.7 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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

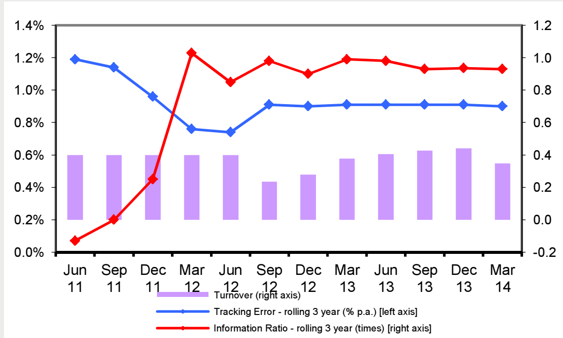
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£66,006	2.0	0.9	N/A

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-2.8	-3.7	4.2
Benchmark	-3.1	-4.1	3.3
Relative	+0.3	+0.4	+0.9

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

Comments:

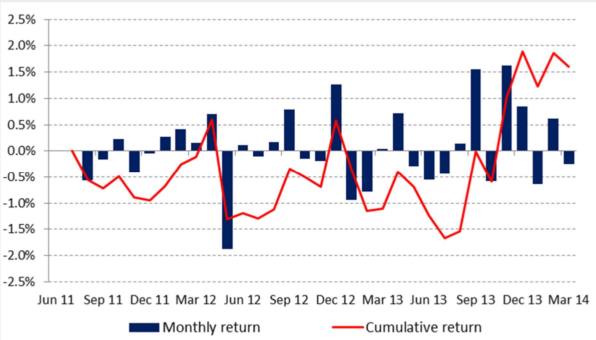
- The Fund's return is meeting their performance target over 3 years.
- In terms of country allocation, there are no significant deviations away from the benchmark. Just over half of the fund (54.3%) is invested in Japan, decreasing from 56.3% last quarter in line with the benchmark.
- The pooled fund size is £66.09m of which Avon hold £66.01m. 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 decreased to 34.8% after an increase in the previous quarter.
- The information ratio (+0.93) has slightly decreased compared to the previous quarter (+0.94).
- The tracking error of the fund has remained the same as it was last quarter.

5.8 Record – Active Currency Hedging

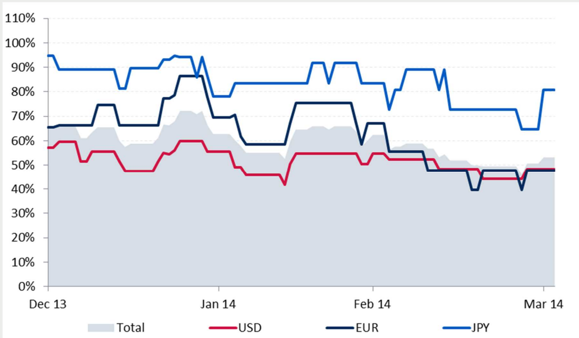
Mandate	Benchmark	Outperformance Target	Inception Date
Dynamic Currency Hedge (US$, Yen and Euro equity exposure)	N/A	N/a	July 2011

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 year (% p.a
Record Hedge	-0.28	2.74	n/a
50% Illustrative Hedge	0.18	4.63	n/a
Relative	-0.46	-1.81	n/a

Currency Hedging 3 Month Performance in Sterling Terms

	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	479,204,874	438,127,692	-0.65	0.34	-0.01	-0.66
EUR	200,118,065	195,291,888	-0.64	0.34	0.09	-0.55
JPY	125,312,152	115,802,811	1.39	-0.71	-1.90	-0.51
Total	**804,635,091**	**749,222,392**	**-0.30**	**0.18**	**-0.28**	**-0.58**

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

Comments:

- The strengthening of Sterling against the US dollar and Euro meant that the impact of currency hedging has had a beneficial impact, reducing the negative effect of currency movements.
- Over the most recent quarter, Record have underperformed against a 50% hedge of each of the three currencies.
- The overall hedging ratio remains towards the peak of the period since inception.

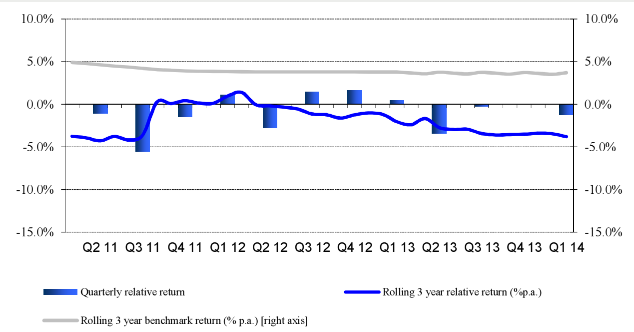
5.9 Signet – Fund of Hedge Funds

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

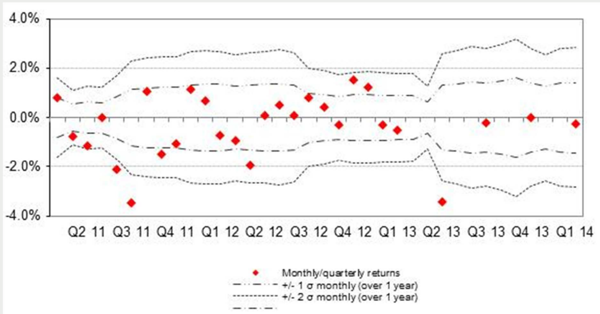
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche fixed income strategy focus ■ Established team with strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£66,155	2.0	25

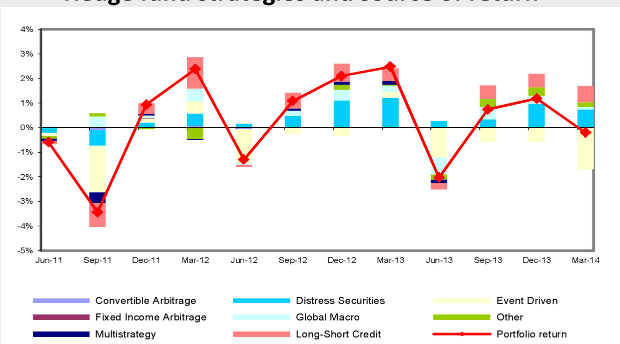
Relative returns #1



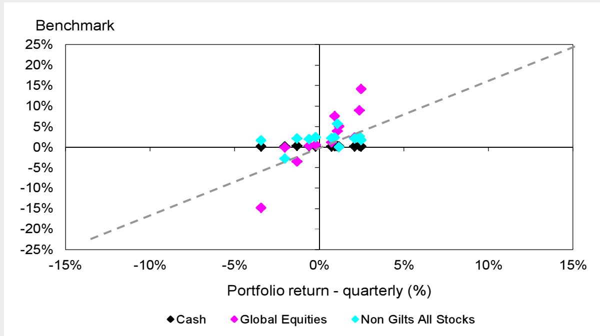
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.5	-1.5	-0.2
Benchmark	0.9	3.5	3.7
relative	-1.3	-4.9	-3.8

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

Comments:

- The Panel met Signet at the last meeting and discussed their joint venture with Morgan Creek Capital Management.
- Signet have underperformed their target over both 1 year and 3 years.
- The main contributor to Signet's quarterly performance was Event-Driven (1.7%), offset by Distressed and Special Situations (-0.7%).
- 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.

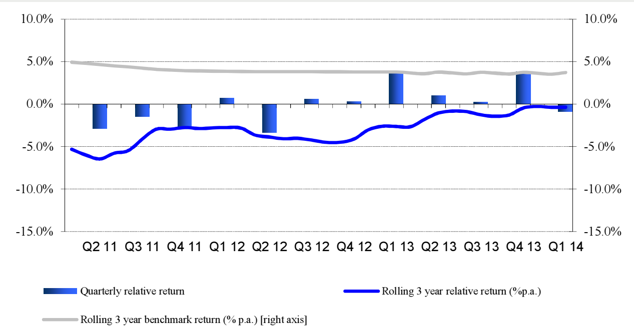
5.10 Stenham – Fund of Hedge Funds

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

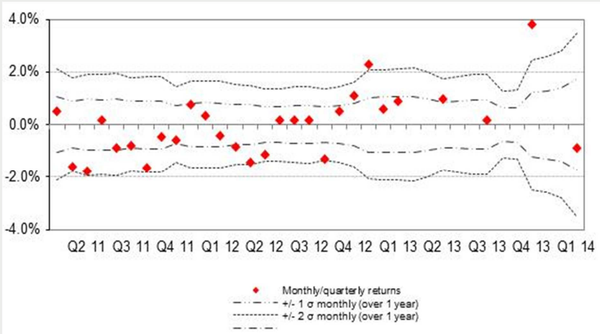
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies ▪ Established team, strong track record at selecting managers ▪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

Value (£'000)	% Fund Assets	Number of Funds Over The Period
£37,654	1.1	19

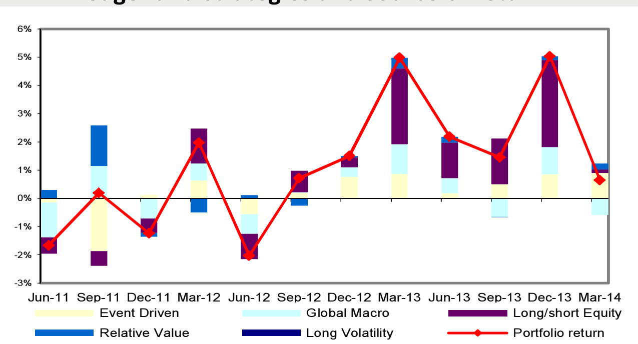
Relative returns [#1]



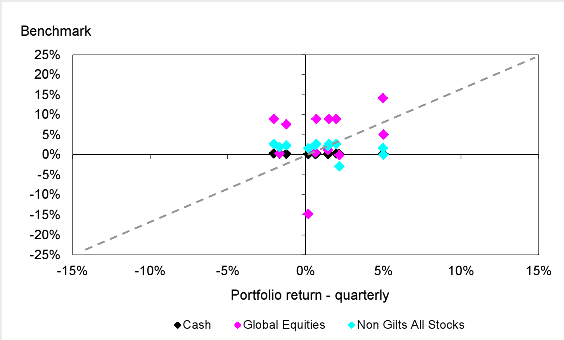
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.0	7.8	3.4
Benchmark	0.9	3.5	3.7
Relative	-0.9	+4.2	-0.3

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

Comments:

- Stenham have underperformed their target over three months but remain ahead over one year.
- Their three year performance has improved slightly from 3.3% p.a. to 3.4% p.a. but remains behind their benchmark.
- The negative contribution to performance over the quarter came from Global Macro (-0.9%). Long/Short Equity (0.1%), Event Driven (0.9%) and Relative Value (0.2%) contributed positively.
- The allocation to the Global Macro and Long / Short Equity strategies made up 59.0% of the total Fund allocation. The allocation to Cash increased to 14.0% over the quarter.
- The number of funds has increased to 17.
- There is no clear correlation between this Fund and cash, global equities or non-gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

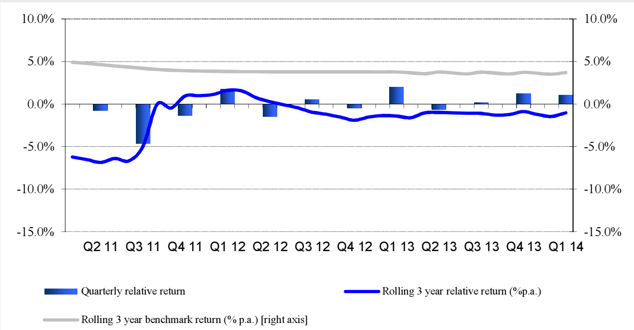
5.11 Gottex – Fund of Hedge Funds

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

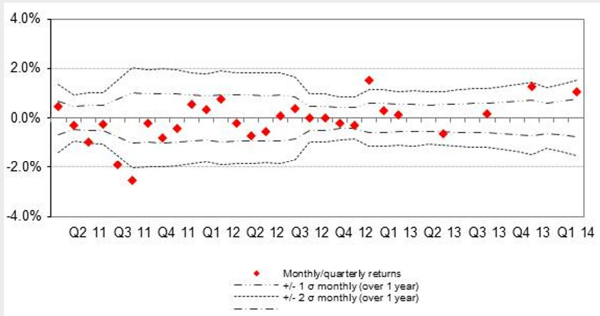
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche market neutral investment strategy ■ Established team, strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£58,062	1.7	Not available

Relative returns [#1]

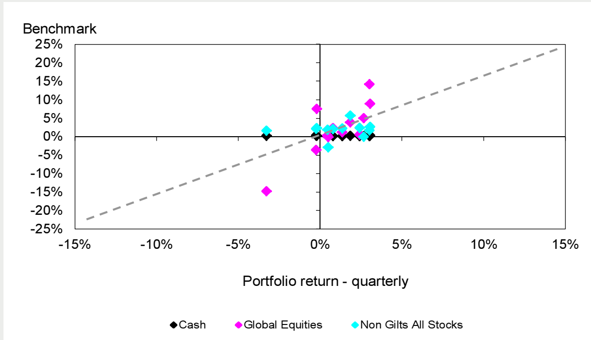


Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]

Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.9	5.4	2.7
Benchmark	0.9	3.5	3.7
Relative	+1.1	+1.8	-1.0

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

Comments:

- In December 2013 Gottex announced a merger with EIM. The Panel met with Gottex to 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.

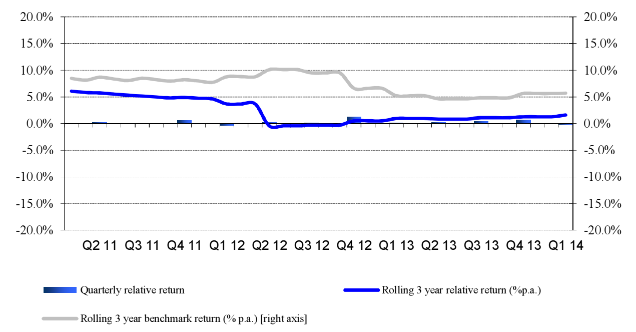
5.12 Schroder – UK Property

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

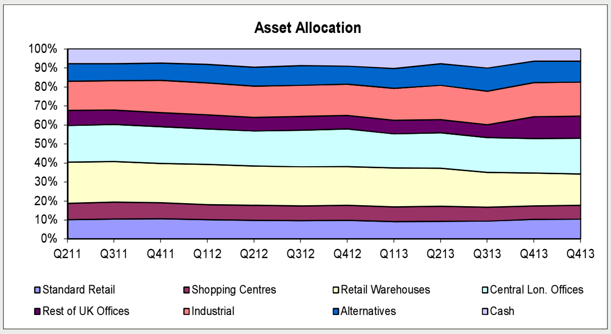
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Demonstrable track record of delivering consistent, above average performance. ■ Team though small is exclusively dedicated to UK multi-manager property management but can draw 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
£150,249	4.5	Not available	15

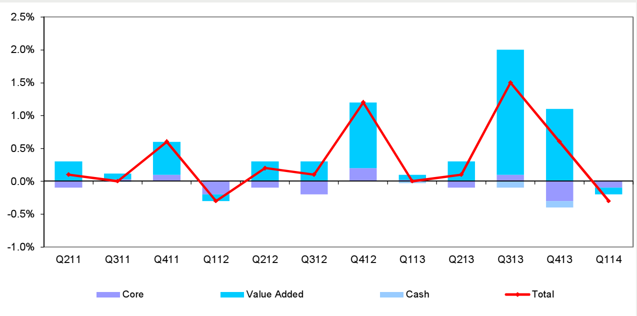
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	3.1	12.9	7.4
Benchmark	3.3	11.9	5.7
relative	-0.2	+0.9	+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 marginally underperformed its benchmark, which Schroder explain as being due to valuation timing issues from a delayed price on the Industrial Property Investment Fund and delayed income on the Henderson UK Retail Warehouse Fund, these figures will be captured next quarter. The three year performance remains strong, exceeding the benchmark by 1.6% per annum.
- Both core and value added funds marginally detracted from performance over the quarter, although for value added funds this was explained as due to the timing issues above.
- Over the longer three year period, the portfolio has benefited from exposure to central London offices (WELPUT, Columbus and Hermes), with retail-focussed funds detracting (Standard Life Pooled and UK Shopping Centre Trust).
- Over the quarter, the portfolio received capital distributions from three funds that are reaching maturity, which were reinvested into existing core funds.
- Schroder are likely to reduce exposure to the central London office and shopping centre subsectors and increase exposure to the office and industrial sectors in the rest of the UK.
- They expect the UK economy to continue to grow and property to return 8-10% per annum over the next three years.

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 £116 million. A total of £2.66 million was drawn down over the quarter, mainly from Global Real Estate 2011 and Real Estate Secondary 2009. The draw downs commenced in September 2009.

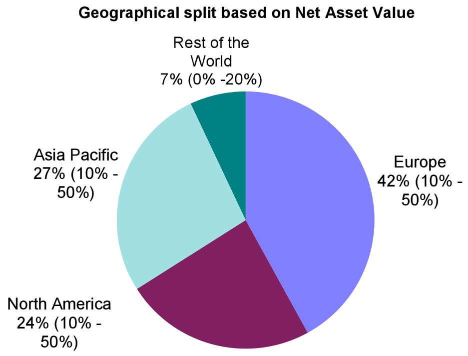
The funds invested to date have been split by Partners as follows:

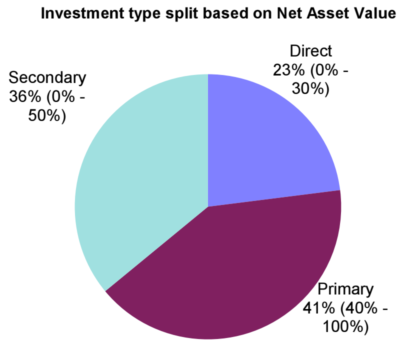
Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 March 2014 (£ Million)	Since Inception Net IRR
Real Estate Secondary 2009	17.34	19.32	13.7
Global Real Estate 2008	30.36	25.50	7.7
Asia Pacific and Emerging Market Real Estate 2009	13.84	12.32	6.8
Distressed US Real Estate 2009	14.76	11.35	9.9
Global Real Estate 2011	20.79	20.72	7.5
Direct Real Estate 2011	10.49	10.89	7.6
Real Estate Secondary 2013	3.24	6.66	105.5
Global Real Estate 2013	5.17	5.29	5.0
Total	**115.98**	**112.05**	**9.9**

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 March 2014, 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

This quarter, the allocation has increased to Europe (from 40% to 42%) and Rest of the World (from 6% to 7%), with decreases in North America (from 25% to 24%) and Asia Pacific (form 29% to 27%). These remain within the guidelines.

The exposure to Secondary has decreased significantly this quarter from 46% to 36%, with Primary increasing by a similar amount, from 30% to 41%. Direct exposure has decreased slightly from 24% to 23%. Primary exposure is now within the guidelines. Short-term deviation from the guidelines are expected whilst the amount drawn-down is 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 £27.60m, with distributions worth £3.31m over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Over Q4 2013, the manager produced a return of 1.0% compared to the benchmark of 4.3%.

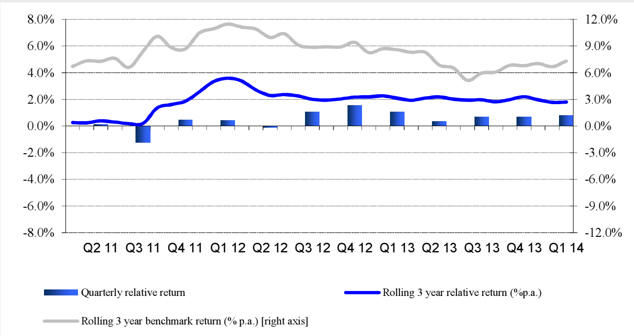
5.14 Royal London Asset Management – Fixed Interest

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

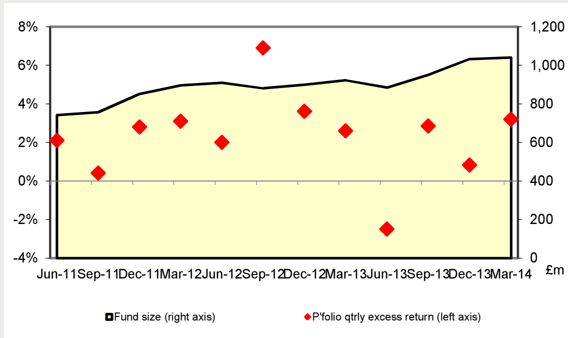
Reason in Portfolio	Reason Manager Selected
To maintain stability in the Fund as part of a diversified fixed income portfolio	▪ Focused research strategy to generate added value ▪ Focus research on unrated bonds provided a “niche” where price inefficiencies more prevalent ▪ Product size means can be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

Value (£’000)	% Fund Assets	Number of Holdings	
£249,851	7.5	258	

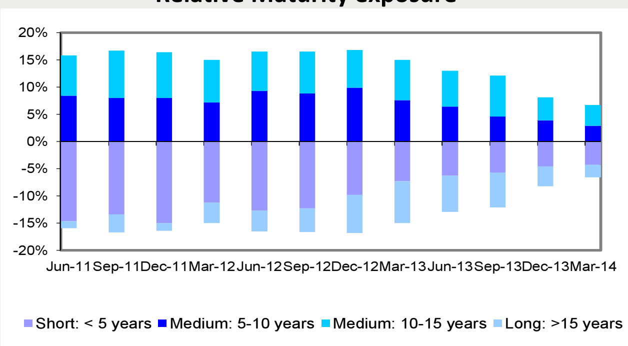
Relative returns [#1]



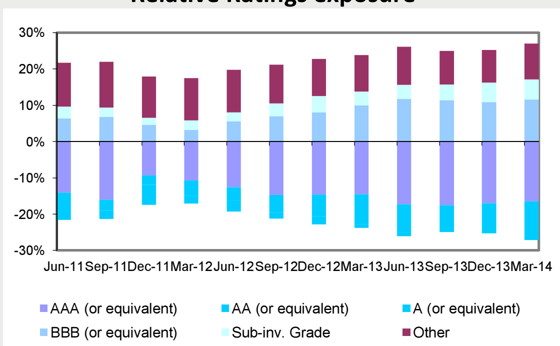
Performance v fund size [#3]



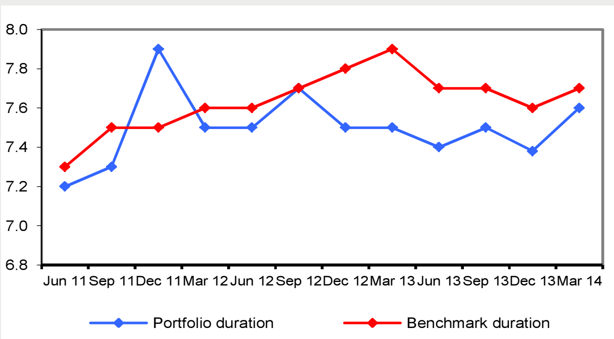
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	3.2	4.0	9.3
Benchmark	2.4	1.5	7.4
relative	+0.8	+2.5	+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 overweight 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.

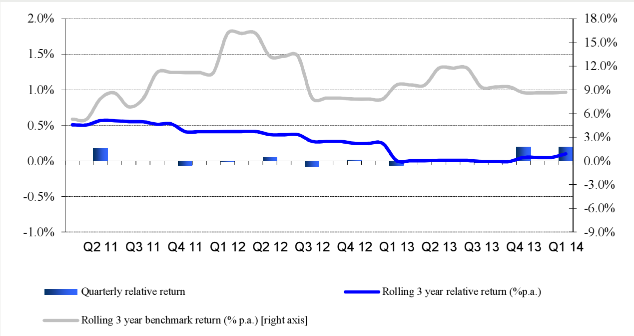
5.15 BlackRock – Passive Multi-Asset

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

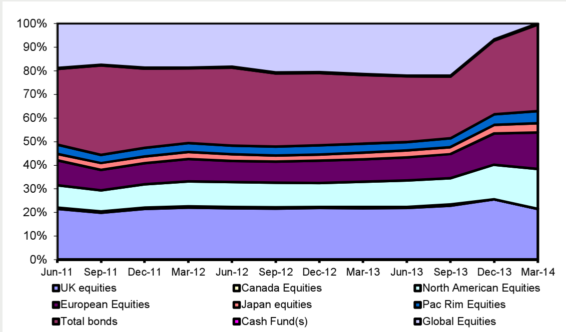
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified portfolio	▪ To provide low cost market exposure across multi asset classes ▪ Provide efficient way for rebalancing between bonds and equities within a single portfolio

Value (£'000)	% Fund Assets
£1,026,945	30.9

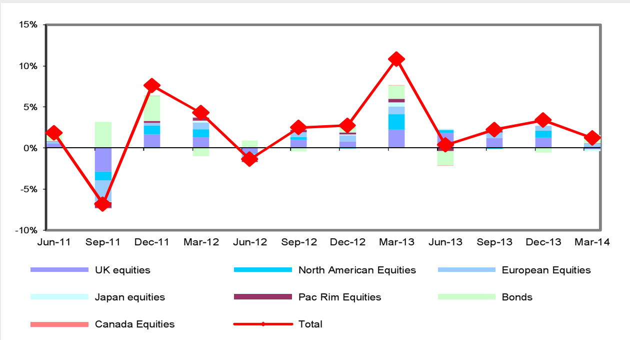
Relative returns #1



Asset Allocation #5



Contribution to absolute return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.5	5.3	8.8
Benchmark	1.2	4.8	8.7
relative	+0.2	+0.5	+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.
- This quarter the global equity fund was partly sold down to fund the investment with Unigestion. At the end of March 2014 the Blackrock Mulit-Asset Fund represented 30.9% of the Fund's total investment, which compares to 35.5% at the end of December 2013.

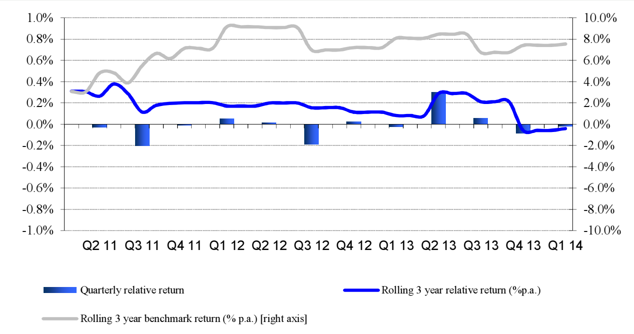
5.16 BlackRock No.2 – Property account ("ring fenced" assets)

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
£45,643	1.4

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.8	3.5	7.5
Benchmark	0.9	3.3	7.5
relative	0.0	+0.2	0.0

Source: Data provided by WM Performance Services, and BlackRock

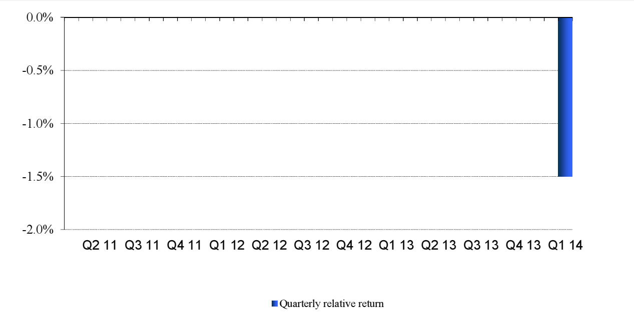
Comments:

- Over the quarter, the Fund's holding in all the asset class has more or less remained same as previous quarter.
- US Equity and Gilts generated positive absolute returns, while UK Equity Futures generated a negative return.

5.17 Pyrford – DGF

Mandate	Benchmark	Outperformance Target	Inception Date
DGF	RPI + 5% p.a.	0%	19 November 2013
Reason in Portfolio	**Reason Manager Selected**		
To provide an equity like return over the long term but with a lower level of volatility.	■ Asset allocation skill between equities, bonds and cash ■ Fundamental approach to stock selection		
Value (£'000)	**% Fund Assets**		
£104,542	3.1		

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.2	NA	NA
Benchmark	1.8	NA	NA
relative	-1.5	NA	NA

Source: Data provided by WM Performance Services, and BlackRock

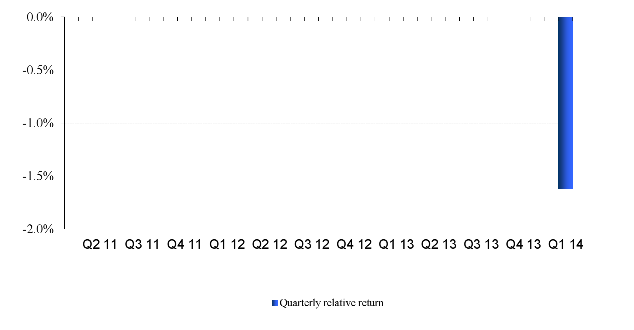
Comments:

- The Fund produced a positive return over the quarter, albeit below the long term target of RPI + 5% p.a.
- Absolute performance was driven mainly by the portfolio's UK equities which were up 1.1%, outperforming the FTSE All Share Index by +1.7%. However, the Fund's overseas equities underperformed.
- Similarly in bonds, the Fund's UK Bonds contributed positively over the quarter, whilst its overseas bonds detracted predominantly due to weakness in the Canadian dollar.
- Pyrford added value through positive stock selection within UK equities but stock selection within overseas equities was negative. The position to have a high weighting to government bonds should have aided performance but being short duration detracted.
- During the quarter, the asset allocation of the portfolio was unchanged. The porfolio continues to be very defensively positioned with an asset allocation of: equities 35%, fixed income 62% and cash 3%. The equity portfolio has a zero weighting in UK and European banks and limited exposure to more cyclical sectors such as capital goods and materials. Their focus is on balance sheet strength, profitability, earnings visibility and value.
- Pyrford continues to adopt a defensive stance within bonds by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter, the modified duration of the fixed income portfolio was 2.2 years. There were no changes to the fixed income portion of the portfolio during the quarter.

5.18 Barings – DGF

Mandate	Benchmark	Outperformance Target	Inception Date
DGF	3 Month Libor + 4% p.a.	0%	18 November 2013
Reason in Portfolio	**Reason Manager Selected**		
To provide an equity like return over the long terms but with a lower level of volatility.	■ Dynamic asset allocation across a range of asset classes		
Value (£'000)	**% Fund Assets**		
£209,798	6.3		

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.5	NA	NA
Benchmark	1.1	NA	NA
relative	-1.6	NA	NA

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Barings produced an absolute negative return over the quarter.
- Their significant weighting to Japanese and UK equities detracted value as both lagged other equity markets. The Japanese market was weak over the quarter as investors expressed concern about the rise in the sales tax in April.
- Fixed income added value over the quarter with modest positive contributions from High Yield bonds, Convertible Bonds and US government bonds. However, Emerging Market bonds had a slight negative contribution due to the large sell off in Russian bonds.
- Asset allocation was the main driver of returns, with positions in emerging markets and, in particular, Japan, detracting value.
- Stock selection also detracted slightly after a strong contribution in 2013. Negative contributions came from the Baring Asia Pacific Equity Component Fund, their primary vehicle for investing in Japanese equities, and the UK investment vehicle which lagged the UK market during the period. Positive contributions came from the Barings Europe ex UK Fund, Legal and General US Index Trust, and in fixed income, the Muzinich Americayield Fund.
- The Fund increased its equity holdings in the US, Japan, and Taiwan and added a small basket of global mining stocks, funded by a reduction in the Fund's cash holding. Within its fixed income element, the US index-linked exposure was switched out into conventional US bonds. The Fund's exposure to UK corporate bonds and emerging market bonds was also increased. Within the emerging market bonds allocations, Barings sold its entire Russia exposure early on in the Crimea crisis, favouring Turkey, Mexico and Poland instead.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	■ According to the British Chambers of Commerce (BCC), measures of growth in services, export sales and orders hit their highest levels in Q1 since the survey was launched in 1989. Six key manufacturing balances, including investment plans, were also at all-time highs. ■ The release of detailed UK GDP for the fourth quarter showed a more balanced picture of growth. As a result, the Bank of England upgraded its expectations for 2014 growth to 3.4% from its previous forecasts of 2.8%. ■ The labour market continued to strengthen as unemployment fell to 7.2% in the latest reading. A faster than expected improvement prompted the BoE to expand the number of indicators it will consider before raising interest rates. The BoE had earlier pledged not to raise interest rates until unemployment falls below 7%.	■ After a 20.3% gain in 2013, the FTSE All-Share index got off to a muted start in 2014, falling 0.6% over the first quarter as corporate earnings were generally disappointing. Financials, led by banks, had the largest negative effect on returns during the quarter. ■ Equity dividends have enjoyed an impressive lead over bond yields for some time. But with gilts and investment grade bond yields starting to rise, UK equities might witness some amount of discomfort. ■ Fears of a bubble in the UK housing market grew as indicted by the monthly house price index published by Halifax rose 2.4% in February versus a 0.7% consensus estimate.
Overseas Equities:		
North America	■ The US equity markets managed to eke out marginal gains for the quarter despite the Federal Reserve slowing its pace of asset purchases to USD 55 billion in March 2014 from USD 85 billion at the end of 2013. Markets gained comfort as the Fed abandoned its erstwhile threshold of 6.5% unemployment rate to raise interest rates. ■ Markets were boosted as the congress approved a deal to raise the debt ceiling for the government until March 2015. The agreement will ensure that there will be no repeat of a government shutdown like October 2013, in the near future. ■ From a valuations perspective, the S&P 500 still appears to be reasonably priced at a price-to-earnings ratio of 15.8x, with corporate earnings expected to grow by 8% for the year.	■ In February, the commerce department revised down the GDP growth for the fourth quarter in 2013 by 0.8% to 2.4% (annualised), driven by a slowdown in manufacturing activities and lower consumer spending growth. Severe weather conditions during the first quarter has also dampened the growth estimates to sub 2% for Q1 2014. ■ Disruptive weather during January and February led to revision of consensus corporate earnings estimates to a modest growth of 1% for the first quarter; down from initial estimates of 6%. ■ The Federal Reserve revised its median forecast for the Federal Funds rate to 1% and 2.25% from its previous forecast of 0.75% and 1.75% at the end of 2015 and 2016 respectively. A faster than expected rise in the interest rate in the economy is likely to be a headwind for the equities.

<table>
<tr><th rowspan="2">Asset Class</th><th colspan="2">What happened?</th></tr>
<tr><th>Positive Factors</th><th>Negative Factors</th></tr>
<tr><td>Europe</td><td>Eurozone equities delivered positive returns for the first quarter of 2014, outpacing other regions, though gains were held back by the geo-political situation in Ukraine.
The upturn in economic activity continued into 2014, with purchasing managers' indices (PMIs) still showing expansion. The flash reading of the eurozone composite PMI for March was 53.2, marking the ninth consecutive month of expansion.
France saw its flash PMI for manufacturing rise above the breakeven level of 50 for the first time since July 2011, thereby toning down the persisting concern around the strong growth disparities.</td><td>Inflation remained below target during the quarter with the preliminary reading for March at just 0.5% while February's reading was revised down to 0.7% from the preliminary reading of 0.8%. However, the ECB kept its monetary policy unchanged in its latest meet.
Unemployment in the eurozone has remained close to record highs despite signs of economic recovery in the 18-nation currency bloc. The jobless rate remained at 11.9% in February, only marginally down from its peak of 12% for much of 2013.</td></tr>
<tr><td>Japan</td><td>Japan's inflation rose for the ninth consecutive month in February. The consumer price index rose 1.3% year-on-year, in line with the Bank of Japan's expectations, suggesting that Tokyo's efforts to reverse the falling prices is gathering steam.
Factory equipment orders surged to a 5-year high and the job availability rose for the 15th consecutive month in February. The unemployment rate hit a seven year low at 3.6%.</td><td>The rise in consumption tax from 5% to 8% from April, is expected to drain nearly Yen 6 trillion out of the economy. Though the government has passed an economic package of Yen 5 trillion in supplementary budget items plus another Yen 1 trillion in tax cuts to counter the outflow. However, these measures are still lower than last year's stimulus.
GDP grew by 1% on an annualised basis in the three-month period to December, compared with market estimates for a 2.8% expansion. The disappointing result is a reflection of lower exports, as well as weaker private consumption and capital spending.</td></tr>
<tr><td>Asia Pacific</td><td>South Korea's trade surplus widened by 25.7% year-on-year in March 2014, on the back of higher demand from the US and EU, which increased the overall exports by 5.2% year on year.
Indonesian stocks surged as rupiah appreciated by 6.8%, its strongest quarter since June 2009, owing to a narrowing current account deficit, growth in foreign exchange reserves and slow inflation which attracted inflows in Southeast Asia's biggest economy. The rupiah has been a standout performer across Asia year-to-date.</td><td>Asia ex Japan equities have been underperforming the developed world for well over a year and valuations are now discounting a lot of bad news. Sentiment is almost universally negative. Until there is some news from China that is considered positive, markets are likely to languish.</td></tr>
</table>

Asset Class	What happened?	
	Positive Factors	Negative Factors
Emerging Markets	▪ The People's Bank of China widened the daily trading band of Yuan to 2.0% from its previous target of 1.0% . The move is considered as a step towards making the Yuan a fully convertible currency and allowing for greater two-way trade. ▪ MSCI plans to include China's A-shares (Yuan-denominated mainland shares) in its emerging market equity index starting May 2015 as Asia's largest economy gradually opens up its domestic markets to foreign investors. This move would increase China's weight in the benchmark emerging market index to 19.9% from 18.9% currently. ▪ Indian equities hit record highs as foreign investors poured in nearly USD 2.8 billion during the quarter amidst a strengthening currency, shrinking current account deficit and stabilizing economy.	▪ The Chinese PMI slumped to 48.0 in March, the lowest reading since July 2013, as domestic and export demand weakened. This weakness indicates a reduction in discretionary consumer spending, which, if it persists, will make it more difficult for countries to export their way out of trade imbalances and also reinforces signs of a slowdown in the world's second largest economy. ▪ China witnessed its first corporate bond default when Shanghai Chaori Solar Energy failed to pay interest to its bondholders. In a change from previous behaviour rather than delivering a bailout extended debt deadlines, the Chinese Government refrained from doing either on this occasion. ▪ S&P downgraded Turkey's credit rating to negative from stable, citing growing risk of a hard economic lending and unpredicted policy environment. ▪ The Russian central bank raised its interest rates by 1.5% to 7.0% to defend its currency as foreign investors dumped stocks due to political turmoil in Ukraine.
Gilts	▪ The British economy recorded its fastest annual growth rate since the start of the financial crisis in 2013, with full-year growth rate up to 1.9% from just 0.3% in 2012. The IMF predicts that the UK GDP will grow at an annualised pace of 2.9% in 2014, fastest amongst the G7 economies. ▪ The Monetary Policy Committee (MPC) has removed the link between interest rates and unemployment after a sharp fall in the unemployment rate. Interest rates are likely to move only in the later part of the next year after the spare capacity in the economy is fully absorbed.	▪ UK productivity, measured by output per hour, is 21% below the average of G7 countries which is affecting the growth rate and real wages in the economy. The productivity gap of UK with its counterparts is at its widest in 20 years.
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's inflation fell to 4 year low, reaching 1.7% in February 2014 from 1.9% in January 2014, affecting returns on index-linked instruments. ▪ In an environment where central banks are able to control inflation within a target range, there is limited upside to the return expectations on these instruments.

Asset Class	What happened?	
	Positive Factors	Negative Factors
Corporate Bonds	■ Corporations continue to maintain healthy balance sheets as deleveraging continues in expectations of rising interest rates.	■ The corporate bond market still suffers from liquidity constraints while poor productivity is pulling down the earnings growth.
Property	■ In February 2014, the UK commercial property values registered the tenth consecutive month of rise in values. Prices remain nearly 33% below their 2007 peak levels. ■ House prices are rising across the country with the fastest growth rate seen in London where prices are now 20% above the pre-crisis peak. ■ The Construction PMI continues to be well above the 50 mark, with the latest reading being 62.5 in March 2014.	■ Mortgage approval fell to 70,309 in February 2014 from 76,753 in January 2014; biggest drop in more than six years.

Economic statistics

	Quarter to 31 March 2014			Year to 31 March 2014		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.8%	n/a	0.0%	3.1%	n/a	2.3%
Unemployment rate	6.9%	11.8%	6.7%	6.9%	11.8%[4]	6.7%
Previous	*7.1%*	*11.8%*	*6.7%*	*7.9%*	*12.0%*	*7.6%*
Inflation change[2]	0.1%	0.1%	1.4%	1.6%	0.5%	1.5%
Manufacturing Purchasing Managers' Index	55.3	53.0	54.9	55.3	53.0	54.9
Previous	*57.3*	*52.7*	*57.0*	*48.3*	*46.8*	*51.3*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 March 2014 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) EU changing composition area; (2) CPI inflation measure

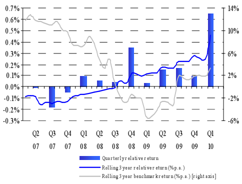
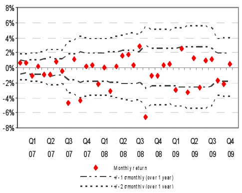
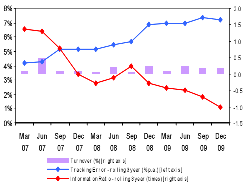
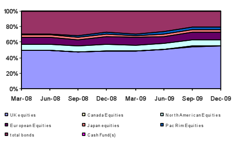
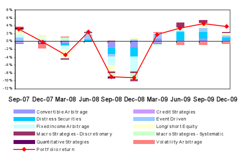
Appendix 2: Glossary of Terms

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.

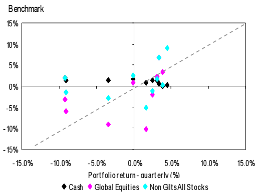
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and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

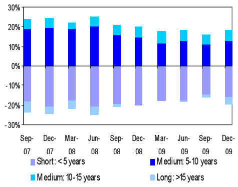
Reference	Description
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark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



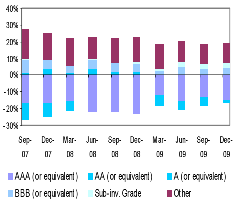
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



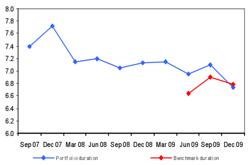
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	-
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%
Pyrford	DGF	RPI + 5%	-
Barings	DGF	3 Month Libor + 4%	-
Cash	Internally Managed	7 day LIBID	

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