Avon Pension Fund

Review for period to 30 June 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. 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 £156m over the second quarter of 2014 to £3,486m.

Strategy

- Equities rose over the quarter as economic data improved, although developed equities fell back slightly towards the end of the quarter following some indicators of a slower growing economy for the remainder of 2014. The best performing region was the emerging markets, which returned 5.0% over the quarter, more than making up its lost ground from Q1 2014. UK equities returned 2.2%, whilst the worst performing equity region was Europe at 0.3%.
- Over the last twelve months, European equities produced the best return of 15.5%; the UK and USA also produced double-digit returns. Eastern markets lagged, with a negative one-year return from Japanese equities.
- 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.
- Gilts produced modest positive returns, as yields fell slightly. Corporate bonds produced a higher return over the quarter as the yield gap narrowed. Over the three year period returns remain ahead of the assumed strategic return. However, note that the next two quarters to fall out of the analysis (Q3 2011 and Q4 2011) were very high returns and so the rolling three year return is expected to fall, all else being equal.
- The Overseas Fixed Interest return has fallen back to -0.9% p.a. over three years, as US yields rose.
- Hedge funds remain below the assumed strategic returns although the three year return showed further improvement this quarter. The Property return has moved further ahead of the assumed strategic return – over the last 12 months the return was 17.6%.
- The strengthening of Sterling against the US dollar, Euro and Yen meant that the impact of currency hedging has had a beneficial impact, reducing the negative effect of currency movements.

Managers

- Absolute returns from the managers were mixed over the last quarter. The highest returns were from the two emerging market equity funds and Schroder Property, which all produced returns of approximately 5%. The only two portfolios with a negative absolute return were TT (-1.0%) and SSgA Europe (-0.3%) - the TT portfolio was significantly below the FTSE All-Share Index of 2.2% whereas the SSgA Europe fund outperformed its benchmark.
- Over one-year, the highest return came from SSgA Europe (17.2%), closely followed by Schroder Property (16.9%). Jupiter, TT and Invesco also had double-digit one-year returns.

- The negative markets earlier in the year continued to affect the one-year SSgA Pacific and Genesis returns, although both managers outperformed their benchmarks over one year.
- Over three years, similarly developed equities produced the best absolute returns. Each equity manager apart from Schroder exceeded their benchmark over three years, and all except TT and Schroder also met their targets.
- The Schroder Global Equity Portfolio has now been in place for three years and has underperformed its target over this period by 1.9% p.a.
- Stenham met its three-year target (albeit with a return of 4.4% p.a.); Gottex outperformed over one-year but remain below their three year benchmark; Signet remain significantly below their three-year target.

Key points for consideration

- The increase in the allocation to emerging market equities over Q1 has proved beneficial given the recent market performance.
  - However, it is important to note that this allocation is a long term position and, over the short term, is likely to exhibit more volatility than developed market equities.
  - The new manager used for the increase in the allocation, Unigestion, is expected to provide a lower volatility than the benchmark and have a contrasting style to the existing emerging market manager, Genesis.
    - It is therefore pleasing that both have outperformed a rising market over the quarter.
- Allocations to infrastructure are expected to begin over the remainder of 2014 and into 2015, expected to be funded from the overweight allocations to developed market equities.
- Pyrford are particularly defensively positioned, echoing some market commentators' concerns that equity markets are showing too little volatility given certain geopolitical events and whether developed market economic growth will continue its momentum.
  - The introduction of the DGF managers who are expected to provide active asset allocation, as well as the introduction of a further diversifying asset class, infrastructure, provides some protection for the Fund against these concerns.
- Credit spreads (the additional yield on corporate bonds relative to gilts) have continued to tighten, leading some market commentators to become concerned over whether a correction is due.
  - Active management within corporate bonds, undertaken by RLAM for the Fund, means that these risks are considered individually for each bond held, providing some protection.
  - The Fund has increased its allocation to corporate bonds but it remains at a modest level. It should be noted that the allocation to high yield bonds has decreased as a result of action taken within the Barings Dynamic Asset Allocation Fund.
- The Avon Pension Fund is currently reviewing its hedge fund portfolio.
  - Stenham and Gottex in particular are showing improving trends in performance, albeit equity related strategies are amongst the main contributors to this performance.
- In August 2014, Barings announced that Percival Stanion, Andrew Cole and Shaniel Ramjee are to leave Barings. Percival is the head of the Barings Multi-Asset team, lead fund manager of the Dynamic Asset Allocation Fund and chairs the strategic policy committee; Andrew is one of founding members of the multi-asset team and a co-manager of the Dynamic Asset Allocation Fund; Shaniel is a junior member of the multi-asset team.

2 Market Background

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

Market Statistics

Yields as at 30 June 2014	% p.a.
UK Equities	3.27
UK Gilts (>15 yrs)	3.34
Real Yield (>5 yrs ILG)	-0.12
Corporate Bonds (>15 yrs AA)	4.17
Non-Gilts (>15 yrs)	4.44

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.14	-0.26	0.28
UK Gilts (>15 yrs)	-0.09	-0.09	-0.88
Index-Linked Gilts (>5 yrs)	-0.02	-0.09	-0.60
Corporate Bonds (>15 yrs AA)	-0.13	-0.35	-1.37
Non-Gilts (>15 yrs)	-0.16	-0.24	-1.09

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.3	5.3	8.7
Index-Linked Gilts (>5 yrs)	1.1	4.3	7.8
Corporate Bonds (>15 yrs AA)	2.8	9.2	9.4
Non-Gilts (>15 yrs)	3.4	9.3	9.6

* Subject to 1 month lag

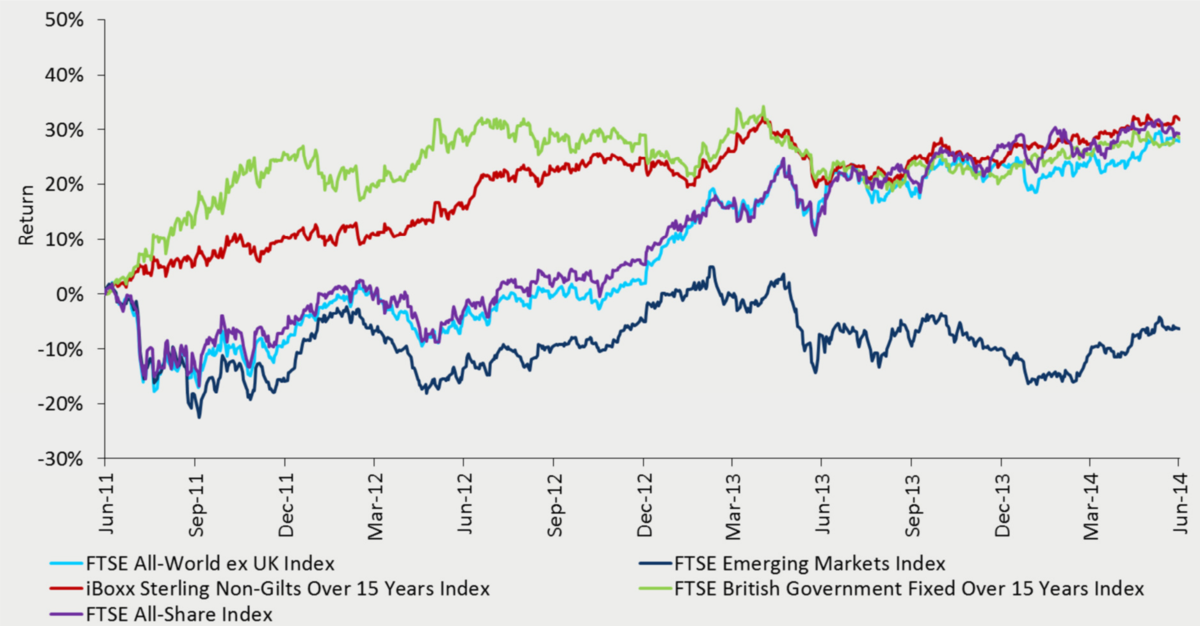
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	2.2	13.1	8.9
Overseas Equities	2.6	9.4	8.5
USA	2.6	10.9	14.3
Europe	0.3	15.6	5.3
Japan	4.3	-1.7	5.7
Asia Pacific (ex Japan)	3.6	4.6	2.0
Emerging Markets	5.0	1.2	-2.2
Property	5.1	17.6	8.6
Hedge Funds	2.0	9.1	5.6
Commodities	0.1	-2.1	-1.9
High Yield	0.3	0.8	7.4
Emerging Market Debt	4.8	11.6	7.4
Senior Secured Loans	1.4	7.0	5.6
Cash	0.1	0.4	0.5

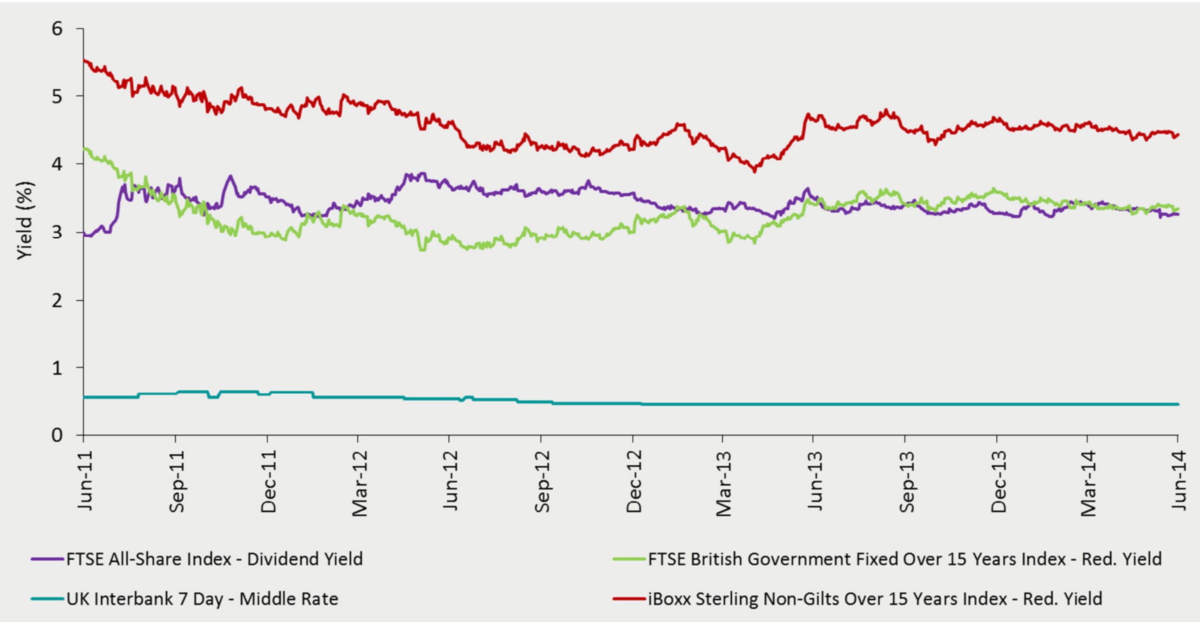
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.6	12.7	2.1
Against Euro	3.2	7.0	4.1
Against Yen	0.9	15.0	10.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.6	2.9
Price Inflation – CPI	0.5	1.9	2.4
Earnings Inflation *	0.2	0.7	1.2

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 firmed up in the second half of 2013 but have softened over the first six months of 2014 whilst the dividend yield has remained relatively flat over the last one year.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 June 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	9.8	Ahead of the assumed strategic return despite the negative quarterly return at the start of the 3 year period. In Q3 2011, uncertainty about the global economic outlook, the banking system and Eurozone debt produced a return of -14.4%. Excluding this, the developed equity return for the last 2¾ years is 17.2% p.a.
Emerging Market Equities	8.75	-2.1	The 3-year return from emerging market equities remains negative although has improved over the most recent quarter. As with developed equities, excluding Q3 2011 gives a very different picture, with the return over the last 2¾ years being 6.0% p.a.
Diversified Growth	Libor + 4% / RPI + 5%	4.7 / 7.6	DGFs are expected to produce an equity like return over the long term – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities but deliver a return close to the long term assumed strategic return from equity.
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. Returns have been positive during 2014 as gilts have been seen as a 'safe haven', particularly during the events in Ukraine.
Index Linked Gilts	4.25	7.8	
UK Corporate Bonds	5.5	7.4	
Overseas Fixed Interest	5.5	-0.9	Well behind the assumed strategic return and has fallen back into negative territory as strong growth and potential inflation acceleration in the US increased yields.
Fund of Hedge Funds	6.0	3.4	Behind the assumed strategic return following negative returns in 2011 and early 2012. More recently returns have been improving. Over the last two years returns have been steady at around 1% to 3% per quarter, which would meet the assumed strategic return.
Property	7.0	8.6	This has moved further ahead of the assumed strategic return as returns have escalated over the last year.

Source: Statement of Investment Principles, Thomson Reuters.

See appendix A for economic data and commentary.

3 Fund Valuations

The table below shows the asset allocation of the Fund as at 30 June 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	31 March 2014 Proportion of Total %	30 June 2014 Value £'000	30 June 2014 Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,567,935	47.1	1,592,727	45.7	40.0
Emerging Market Equities	311,776	9.4	327,819	9.4	10.0
Diversified Growth Funds	314,340	9.4	346,321	9.9	10.0
Bonds	640,599	19.2	673,456	19.3	20.0
Fund of Hedge Funds	162,986	4.9	164,589	4.7	5.0
Infrastructure	-	-	-	-	5.0
Cash (including currency instruments)	71,739	2.2	116,595	3.4	-
Property	260,987	7.8	264,693	7.6	10.0
TOTAL FUND VALUE	**3,330,362**	**100.0**	**3,486,200**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £156m over the second quarter of 2014 to £3,486m.
- The amount invested in DGF's has increased towards the benchmark weight as cash was invested with both Barings and Pyrford.
- In addition, several employing bodies paid their deficit payments in advance, some of which was invested with the two DGF managers and Royal London. The remainder of the deficit payments remained in Cash at the quarter-end, hence the relatively high Cash allocation as seen within the following table.
- The allocation to Developed Market Equities decreased from 47.1% to 45.7% due to cashflows being directed elsewhere, as described above. This takes its exposure closer to the strategic benchmark weight.
- Deviations from the strategic benchmark weight will continue during the period that changes to the investment strategy, agreed in 2013, are implemented.
- In particular, it is expected that the allocation to developed market equities will begin to fall over 2014 and 2015 towards its benchmark weight, as investments in infrastructure are made.

Manager	Asset Class	31 March 2014 Value £'000	31 March 2014 Proportion of Total %	Net new money £'000	30 June 2014 Value £'000	30 June 2014 Proportion of Total %
Jupiter	UK Equities	160,880	4.8	-	163,584	4.7
TT International	UK Equities	185,267	5.6	-	183,391	5.3
Schroder	Global Equities	214,480	6.4	-	219,456	6.3
Genesis	Emerging Market Equities	145,088	4.4	-	152,851	4.4
Unigestion	Emerging Market Equities	166,687	5.0	-	174,969	5.0
Invesco	Global ex-UK Equities	239,795	7.2	-	244,970	7.0
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	107,146	3.2	-	109,464	3.2
Pyrford	DGF	104,542	3.1	12,000	117,921	3.4
Barings	DGF	209,798	6.3	15,000	228,400	6.6
MAN	Fund of Hedge Funds	1,115	0.0	-	890	0.0
Signet	Fund of Hedge Funds	66,155	2.0	-	67,005	1.9
Stenham	Fund of Hedge Funds	37,654	1.1	-	38,056	1.1
Gottex	Fund of Hedge Funds	58,062	1.7	-	58,639	1.7
BlackRock	Passive Multi-asset	1,026,945	30.9	-	1,038,803	29.8
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	45,643	1.4	-1,000	44,470	1.3
RLAM	Bonds	249,851	7.5	23,000	279,336	8.0
Schroder	UK Property	150,249	4.5		159,480	4.6
Partners	Property	112,058	3.4	1,000	108,905	3.1
Record Currency Mgmt	Dynamic Currency Hedging	12,044	0.4	-	14,069	0.4
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	15,988	0.5	-	22,858	0.7
Internal Cash	Cash	20,915	0.6	31,400	58,685	1.7
Rounding		-	-	-	-2	-0.2
TOTAL		**3,330,362**	**100.0**	**81,400**	**3,486,200**	**100.0**

Source: Avon Pension Fund Data provided by WM Performance Services

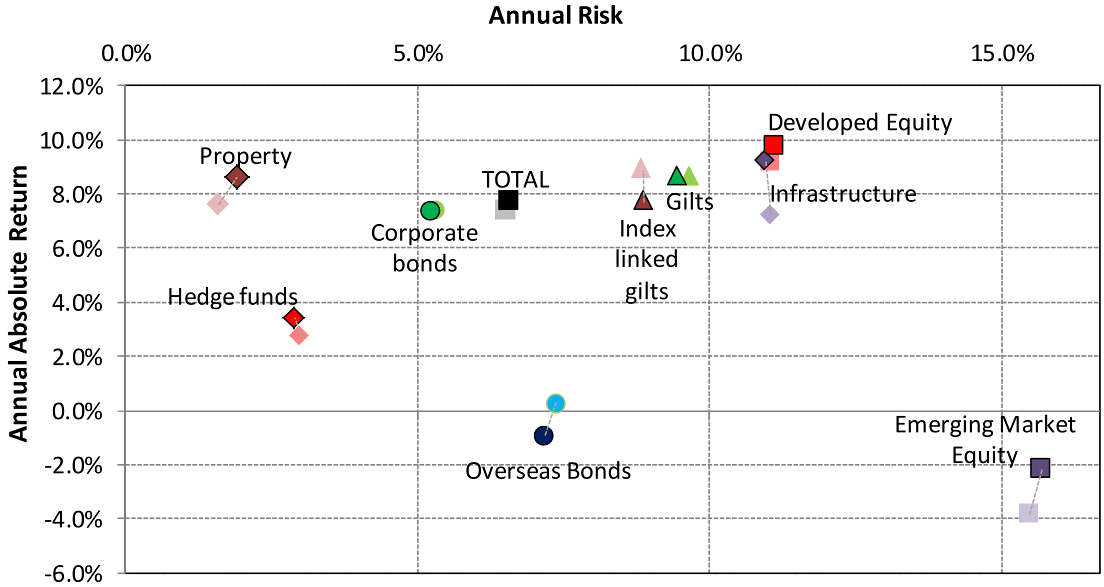
4 Performance Summary

Risk Return Analysis

The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 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 11.

3 Year Risk v 3 Year Return to 30 June 2014

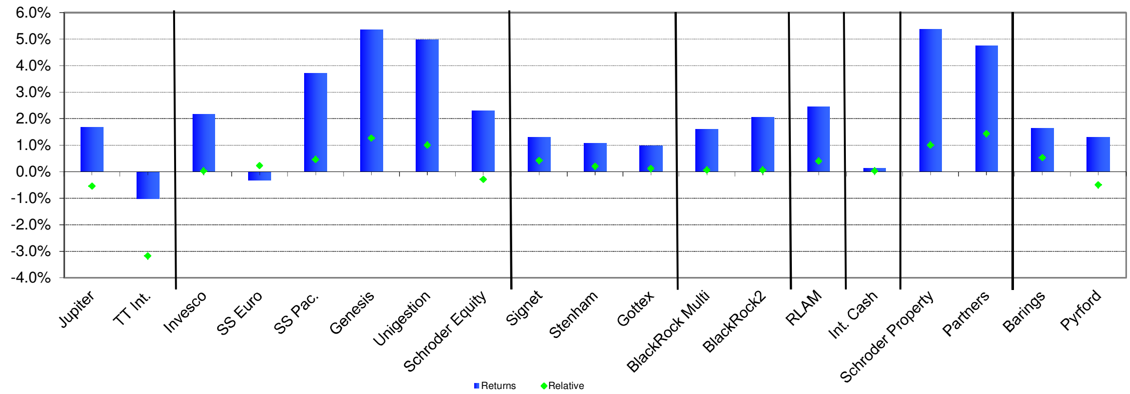


- Overall there has been little change in the three-year risk/return characteristics over the last quarter compared to the previous quarter.
- Developed equity produced the best 3-year return, of 9.8% p.a. Returns of between 7% and 9% p.a. were also produced by gilts, index linked gilts, property, infrastructure and corporate bonds.
- The hedge fund index continues to produce steady improving returns, increasing the three-year return to 3.4% p.a.
- The emerging market equity return improved but remains negative at -2.1% p.a.
- Overseas bonds moved back into negative territory as US bond yields rose.
- In terms of risk, the three-year volatility has remained broadly stable for each asset class in the above chart. The only notable change was on property, increasing from 1.6% p.a. to 1.9% p.a.
- The three-year return on developed equities, property, gilts, index-linked gilts and corporate bonds remain above their assumed strategic return. Hedge funds remain below their assumed strategic return, with overseas bonds and emerging market equities well below.

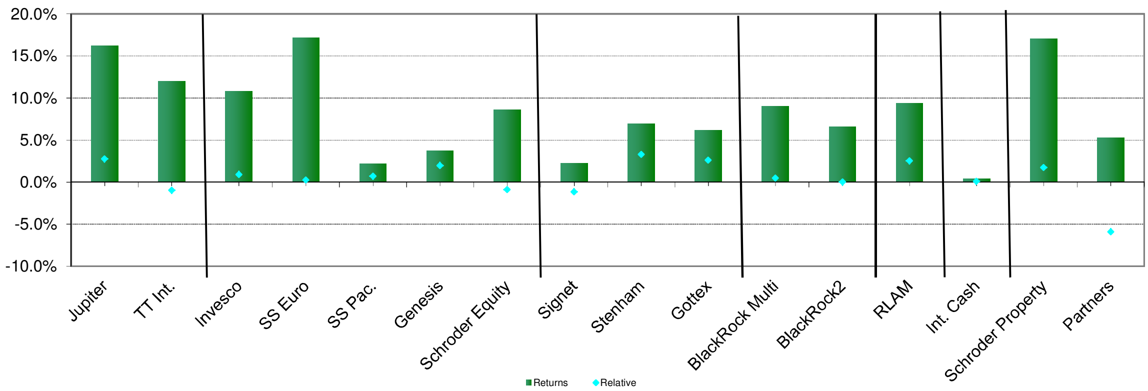
Aggregate manager performance

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

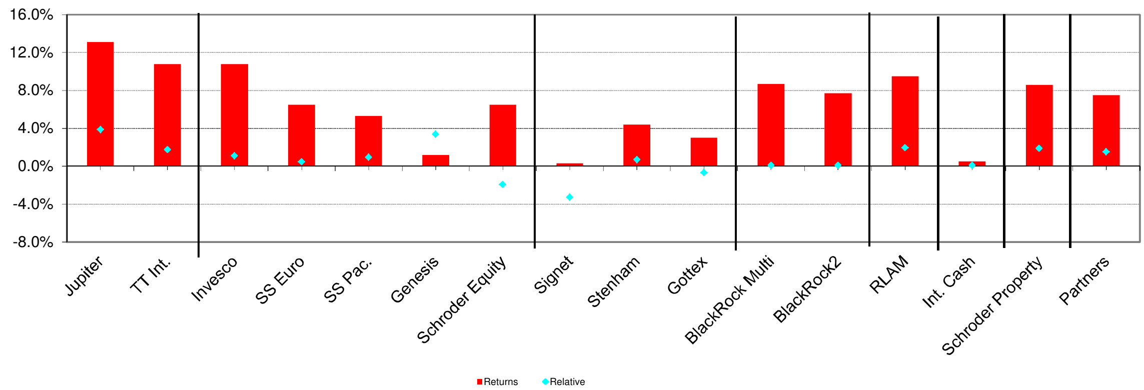
Absolute and relative performance - **Quarter to 30 June 2014**



Absolute and relative performance - **Year to 30 June 2014**



Absolute and relative performance - **3 years to 30 June 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 June 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.

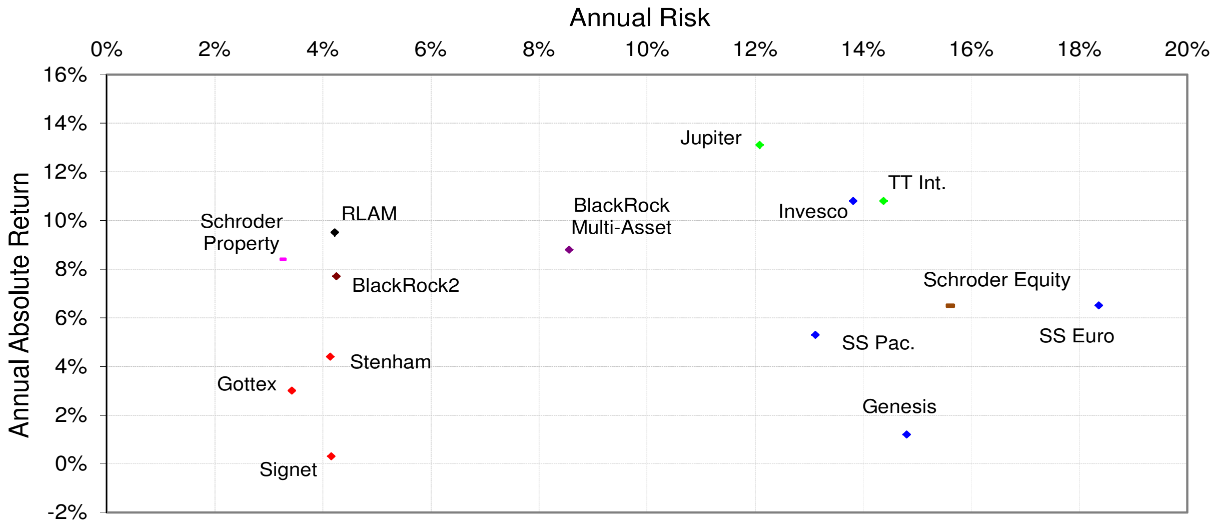
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	-0.5	+2.7	+3.9	Target met
TT International	-3.2	-1.0	+1.7	Target not met
Invesco	0.0	+0.9	+1.1	Target met
SSgA Europe	+0.2	+0.3	+0.5	Target met
SsgA Pacific	+0.5	+0.7	+1.0	Target met
Genesis	+1.3	+2.0	+3.4	Target met
Unigestion	+1.0	N/A	N/A	N/A
Schroder Equity	-0.3	-0.9	-1.9	Target not met
Signet	+0.4	-1.2	-3.3	Target not met
Stenham	+0.2	+3.3	+0.7	Target met
Gottex	+0.1	+2.6	-0.7	Target not met
BlackRock Multi - Asset	+0.1	+0.5	+0.1	Target met
BlackRock 2	+0.1	0.0	+0.1	Target met
RLAM	+0.4	+2.5	+2.0	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+1.0	+1.7	+1.9	Target met
Partners Property	+1.4	-5.9	+1.5	N/A
Barings	+0.5	NA	NA	N/A
Pyrford	-0.5	NA	NA	N/A

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

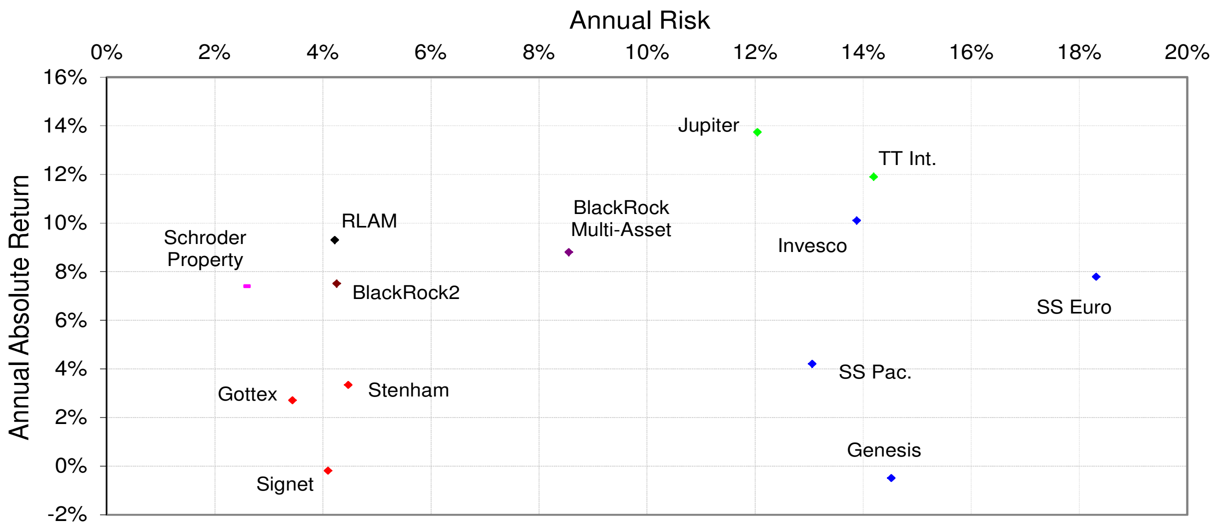
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2014 of each of the funds. We also show the same chart, but with data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

3 Year Risk v 3 Year Return to 30 June 2014



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 March 2014



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 for all funds.
- The UK equity managers' returns fell slightly (Jupiter from 13.7% p.a. to 13.1% p.a. and TT from 11.9% p.a. to 10.8% p.a.) but they remain the best performing funds in absolute terms over three years.
- The other main shifts in the equity funds' three year returns were SSgA Pacific (up from 4.2% p.a. to 5.3% p.a.) and SSgA Euro (down from 7.8% p.a. to 6.5% p.a.).
- The hedge fund managers' thee-year returns all improved over the quarter, in particular Stenham, and Signet, the latter of which moved into positive territory.
- The three-year risk figures remained very stable, with the largest change being 0.7% p.a. (from Schroder Property). Otherwise the risk figures have changed by 0.3% p.a. or less since last quarter. 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.
- Over the longer three year period, the three fund of hedge fund managers have underperformed our asset class assumed strategic return.
- Jupiter, TT, Invesco and RLAM bonds have all outperformed our assumed strategic return and also outperformed their benchmarks (although TT are slightly below target).
- Genesis and the two SSgA funds have underperformed our assumed strategic return, but outperformed their individual targets.
- Schroder Equity is now included on the June chart as the Fund has invested for just over three years; this fund underperformed both our assumed strategic return and its individual target.

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 increase in the allocation to emerging market equities over Q1 has proved beneficial given the recent outperformance.
  - However, it is important to note that this allocation is a long term position and, over the short term, is likely to exhibit more volatility than developed market equities.
  - The new manager used for the increase in the allocation, Unigestion, is expected to provide a lower volatility than the benchmark and have a contrasting style to the existing emerging market manager, Genesis.
    - It is therefore pleasing that both have outperformed a rising market over the quarter.
- Allocations to infrastructure are expected to begin over the remainder of 2014 and into 2015, expected to be funded from the overweight allocations to developed market equities.
- Pyrford are particularly defensively positioned, echoing some market commentator's concerns that equity markets are showing too little volatility given certain geopolitical events and whether developed market economic growth will continue its momentum.
  - The introduction of the DGF managers who are expected to provide active asset allocation, as well as the introduction of a further diversifying asset class, infrastructure, provides some protection for the Fund against these concerns.
- Credit spreads (the additional yield on corporate bonds relative to gilts) have continued to tighten, leading some market commentators to become concerned over whether a correction is due.
  - Active management within corporate bonds, undertaken by RLAM for the Fund, means that these risks are considered individually for each bond held, providing some protection.
  - The Fund has increased its allocation to corporate bonds but it remains at a modest level. It should be noted that the allocation to high yield bonds has decreased as a result of action taken within the Barings Dynamic Asset Allocation Fund.
- The Avon Pension Fund is currently reviewing its hedge fund portfolio.
  - Stenham and Gottex in particular are showing improving trends in performance, albeit equity related strategies are amongst the main contributors to this performance.
- In August 2014, Barings announced that Percival Stanion, Andrew Cole and Shaniel Ramjee are to leave Barings. Percival is the head of the Barings Multi-Asset team, lead fund manager of the Dynamic Asset Allocation Fund and chairs the strategic policy committee; Andrew is one of founding members of the multi-asset team and a co-manager of the Dynamic Asset Allocation Fund; Shaniel is a junior member of the multi-asset team.

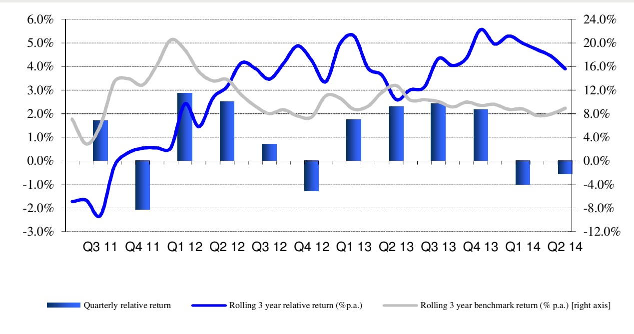
5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

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

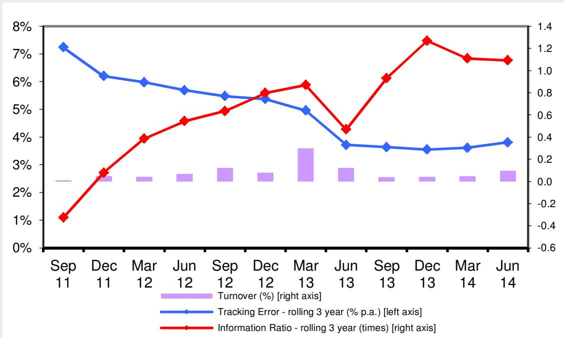
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Clear and robust approach to evaluating SRI factors within the investment process ■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities ■ Corporate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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£163,584	4.7	3.8%	58

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.7	16.2	13.1
Benchmark	2.2	13.1	8.9
Relative	-0.5	+2.7	+3.9

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

Comments:

- Jupiter continues to significantly outperform the 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 30 June 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 small fall in the information ratio over the quarter as the three-year relative return decreased from 4.6% p.a. to 3.9% p.a.

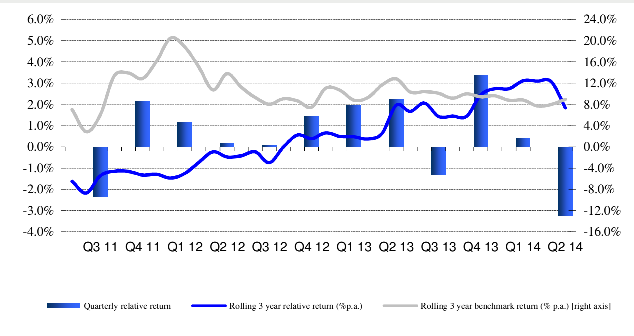
5.2 TT International – UK Equities (Unconstrained)

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

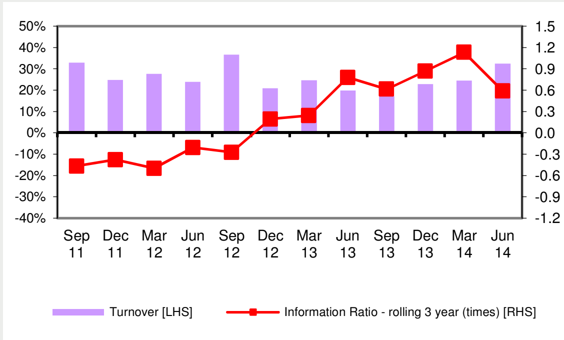
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Favoured the partnership structure that aligns managers and Fund's interests. ■ Focussed investment activity and manages its capacity ■ Clear, robust stock selection and portfolio construction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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£183,391	5.3	3.1%	59

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.0	12.0	10.8
Benchmark	2.2	13.1	8.9
Relative	-3.2	-1.0	+1.7

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

Comments:

- The Fund underperformed its benchmark over the quarter and 1 year, whilst outperforming over the 3 year period. It has not achieved its performance target over 3 years.
- The Fund held an overweight position in Consumer Services and Basic Materials by 3.1% and 3.2% respectively, whilst was underweight in Financials, Utilities, Telecommunications and Oil & Gas by 5.8%, 2.9%, 2.0% and 2.1% respectively, at the end of the quarter.
- Turnover, over the second quarter, increased to 32.4% compared to the last quarter's number of 24.5%.
- The 3 year tracking error (proxy for risk relative to the benchmark) has increased in Q2 2014, from 2.69% to 3.14%.
- The 3 year information ratio has decreased from 1.13 to 0.59, due to a combination of the three-year relative return decreasing from +2.8% p.a. to + 1.7% p.a. and the tracking error increasing.

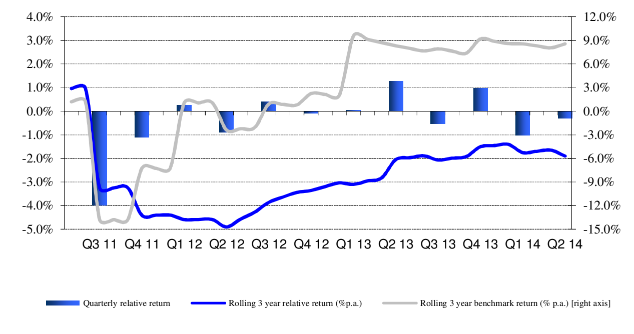
5.3 Schroder – Global Equity Portfolio (Unconstrained)

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
£219,456	6.3	3.3%	N/A

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.3	8.6	6.5
Benchmark	2.6	9.6	8.6
Relative	-0.3	-0.9	-1.9

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

Comments:

- The Panel are meeting Schroder in September to review the development of changes implemented since they were last met.
- The return was below the benchmark over the quarter, producing a 2.3% return against a benchmark return of 2.6%. Over the 1 and 3 year periods, the fund also underperformed its benchmark. This is the first quarter in which the fund has been invested for three years.
- Over the quarter, Credit Suisse was a detractor as it suffered from a combination of poor conditions in its investment banking operations and substantive litigation costs. Shares in eBay were also weak following the hacking scandal in May.
- Their energy stocks performed well, supported by rising energy prices. Following strong performance, Canadian Pacific Railway was exited.
- Schroder are positioned for an improvement in global growth throughout 2014. Their biggest concern is China and they will be more positive when general expectations are more realistic, for example, a reduction in growth expectations of 7.5% p.a. over the next 10 years.
- Information on the Schroder equity tracking error and information ratio will be included next quarter. Schroder's turnover over the 12 months to 30 June 2014 was 57.2%.

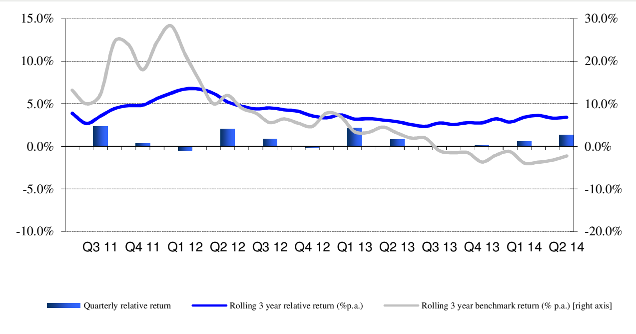
5.4 Genesis Asset Managers – Emerging Market Equities

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

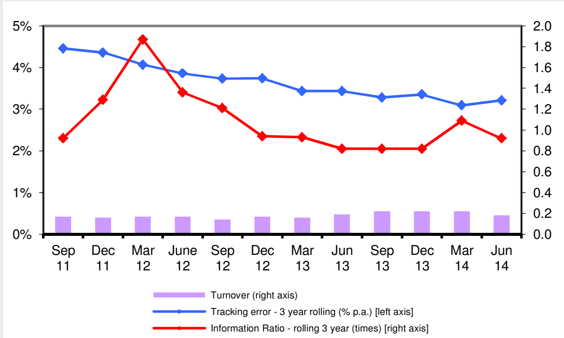
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Long term investment approach which takes advantage of evolving growth opportunities ■ Niche and focussed expertise in emerging markets ■ Partnership structure aligned to delivering performance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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£152,851	4.4	3.2%	159

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.4	3.7	1.2
Benchmark	4.0	1.7	-2.1
relative	+1.3	+2.0	+3.4

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

Comments:

- Genesis has achieved significant outperformance of the benchmark over 3 years, despite volatile markets.
- The Fund is overweight to India and South Africa, while underweight to South Korea, Taiwan 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 to 3.2% in Q2 2014. The three year information ratio (risk adjusted return), has decreased from 1.1 to 0.9.
- The allocation to Cash (2.4%) increased compared to the previous quarter (2.1%).
- On an industry basis, the Fund is overweight Consumer Staples (+8.0%), Materials (+6.1%), Health Care (+3.0%) and Financials (+2.5%). The Fund is underweight to Consumer Discretionary (-6.1%), Energy (-4.6%), Telecom Services (-4.4%), Industrials (-2.7%) and Utilities (-3.3%).

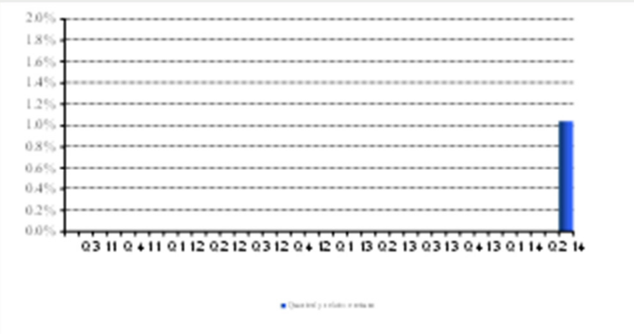
5.5 Unigestion – Emerging Market Equities

Mandate	Benchmark	Outperformance Target	Inception Date
Emerging Market equities	MSCI EM IMI TR	+2-4%	January 2014

Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	▪ Risk-based active management approach ▪ Aim for a lower volatility than the MSCI Emerging Markets Index ▪ Combine fundamental and quantitative analysis

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£174,969	5.0	3.8%	87

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.0	NA	NA
Benchmark	3.9	NA	NA
relative	+1.0	NA	NA

Source: Data provided by WM Performance Services, and Unigestion

Comments:

- The fund outperformed by 1.0% over the quarter. From an industry perspective, the asset allocation effect was +0.4% and stock selection effect was +0.6%.
- Since inception on 24 January 2014, the fund is marginally behind the benchmark by 0.1%.
- On 30 June, the fund was overweight in Taiwan and China, and underweight in Brazil.
- The Fund is overweight Consumer Staples (+12.3%), Utilities (+6.1%), Telecom Services (+3.7%) and Health Care (+1.7%). The Fund is underweight to Financials (-11.1%), Information Technology (-8.1%), and Industrials (-5.0%).

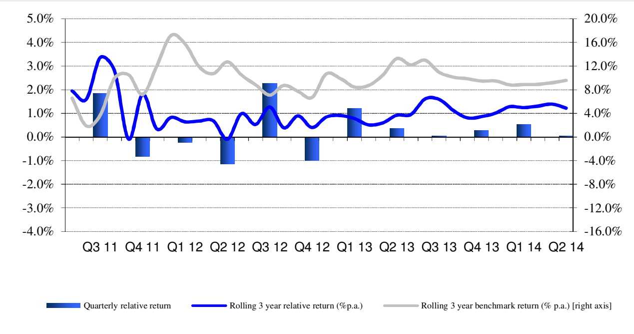
5.6 Invesco – Global ex-UK Equities (Enhanced Indexation)

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

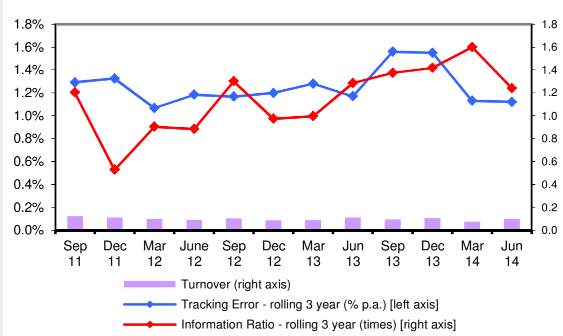
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis ■ One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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£244,970	7.0	1.1%	401

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.2	10.8	10.8
Benchmark	2.1	9.8	9.6
relative	0.0	+0.9	+1.1

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

Comments:

- The Fund has tracked its benchmark over the last quarter and remains above its outperformance target over 3 years.
- The absolute volatility over 1 year has remained unchanged to 9.7% at the end of the second quarter of 2014.
- The turnover for this quarter of 9.9% has increased from 7.5% in the previous quarter. The number of stocks (401) 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.

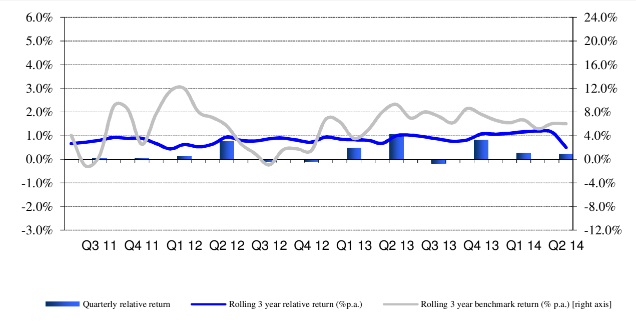
5.7 SSgA – Europe ex-UK Equities (Enhanced Indexation)

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

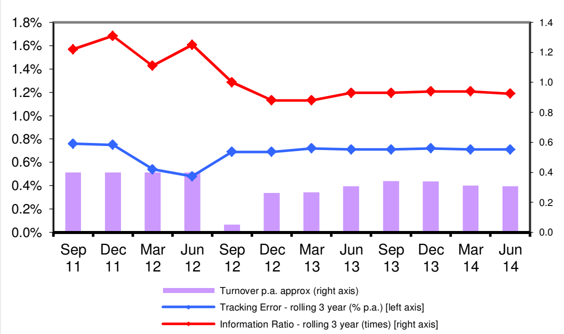
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£41,002	1.2	0.7	231

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.3	17.2	6.5
Benchmark	-0.6	16.9	6.0
Relative	+0.2	+0.3	+0.5

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

Comments:

- The Fund's return is meeting the performance target over 3 years.
- France, Germany and Switzerland make up over 60% of the fund's benchmark – the allocation to all three countries is similar to the benchmark allocation.
- The total pooled fund size on 30 June 2014 was £41.08m. 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.
- Turnover has decreased from 31.2% to 30.7%, but remains consistent with levels previously seen.
- The tracking error and information ratio have remained more in line with the previous quarter.

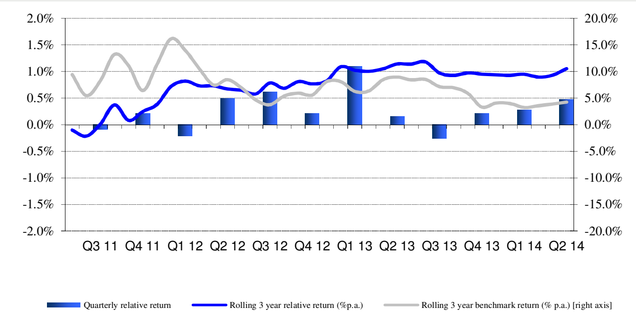
5.8 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

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

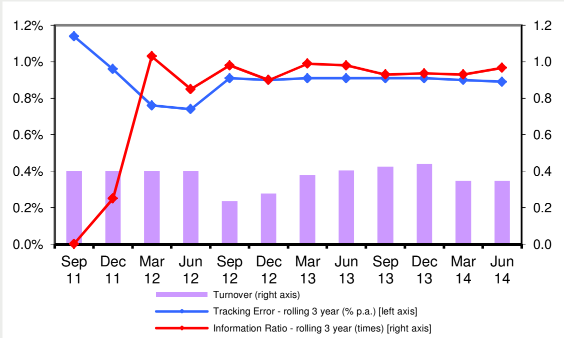
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified equity portfolio	■ Strength of their quantitative model and process, and ongoing research to develop the model. ■ Historical performance met the risk return parameters the Fund was seeking. ■ 2 Funds (European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

Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£68,462	2.0	0.9	415

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	3.7	2.2	5.3
Benchmark	3.3	1.5	4.3
Relative	+0.5	+0.7	+1.0

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

Comments:

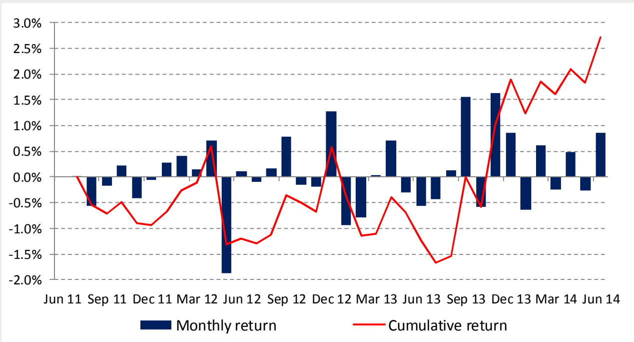
- The Fund's return is meeting the performance target over 3 years.
- In terms of country allocation, there are no significant deviations away from the benchmark. Just over half of the fund (55.4%) is invested in Japan, increasing from 54.3% last quarter but 0.1% under the benchmark.
- The pooled fund size is £68.55m of which Avon hold £68.46m. 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 slightly decreased to 34.7% following a decrease in the previous quarter.
- The information ratio (+0.97) 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.

5.9 Record – Active Currency Hedging

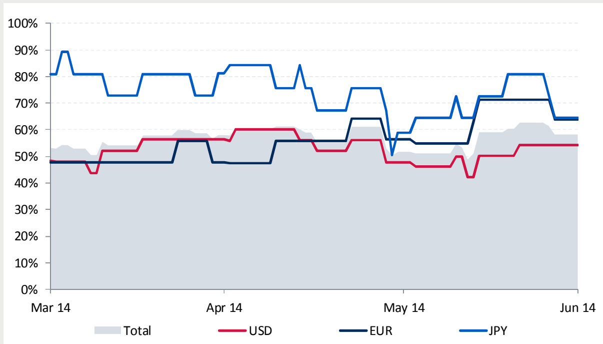
Mandate	Benchmark	Outperformance Target	Inception Date
Dynamic Currency Hedge (US$, Yen and Euro equity exposure)	N/A	N/a	July 2011

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	1.09	4.00	0.90
50% Illustrative Hedge	1.25	5.70	1.57
Relative	-0.16	-1.61	-0.66

Currency Hedging 3 Month Performance in Sterling Terms

	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	438,127,692	465,793,892	-2.50	1.28	1.09	-1.41
EUR	195,291,888	190,822,399	-3.14	1.62	1.60	-1.54
JPY	115,802,811	123,474,456	-0.88	0.49	0.21	-0.67
Total	**749,222,392**	**780,090,748**	**-2.42**	**1.25**	**1.09**	**-1.33**

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

Comments:

- The strengthening of Sterling against all three currencies meant that the impact of currency hedging has had a beneficial impact, reducing the negative effect of currency movements.
- Over the quarter, Record has underperformed against a 50% hedge of each of the three currencies.
- The overall hedging ratio has increased due to an increase in the Euro and Dollar ratios, although a decrease in the Yen ratio.

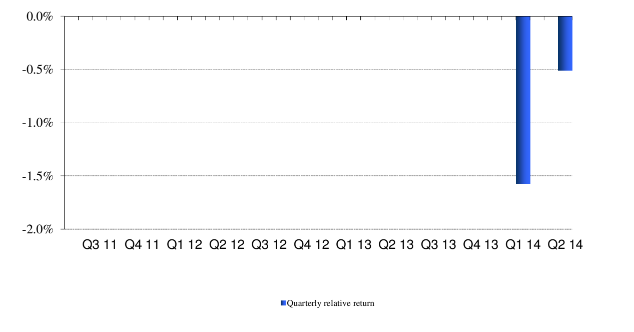
5.10 Pyrford – DGF

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
£117,921	3.4

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.3	NA	NA
Benchmark	1.8	NA	NA
relative	-0.5	NA	NA

Source: Data provided by WM Performance Services, and Pyrford

Comments:

- The Fund produced a positive return over the quarter, albeit below the long term target of RPI + 5% p.a.
- The performance of the Fund was driven by its equity allocation with both the UK and overseas elements contributing positively to performance and outperforming their respective underlying indices.
- However, the Fund's bond elements were a lag on performance. The UK element produced a small positive return, but underperformed its underlying index, while the overseas bond element produced a negative absolute return and underperformed its underlying index.
- During the quarter, the asset allocation of the portfolio remained unchanged. The portfolio 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. The focus remains on balance sheet strength, profitability, earnings visibility and value.
- Pyrford continue to adopt a defensive stance within its fixed income holdings 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 second quarter the modified duration of the fixed income portfolio was 1.9 years. This compares with 2.2 years at the end of Q1 2014. There were no changes however to the geographical allocation of the fixed income portfolio of the portfolio during the quarter.

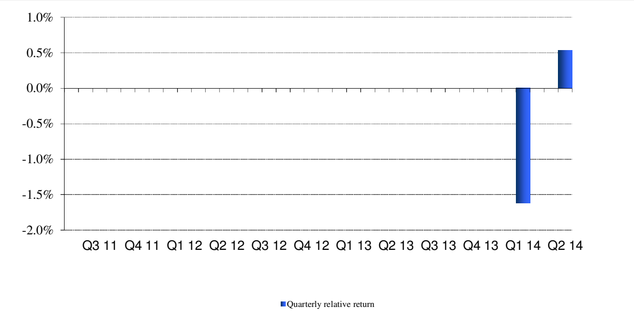
5.11 Barings – DGF

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 term but with a lower level of volatility.	■ Dynamic asset allocation across a range of asset classes

Value (£'000)	% Fund Assets
£228,400	6.6

Relative returns #1



Performance

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

Source: Data provided by WM Performance Services, and Baring

Comments:

- The Fund outperformed against its benchmark over the quarter. During the period the Japanese equity position made a notable contribution to the overall performance with approximately three quarters of total overseas equity contribution coming from Japan, while the remaining balance came from the United States. The Fund's currency hedges also made a notable contribution to performance due to the continued strength of Sterling.
- Despite the Fund's considerable UK equity weighting, the asset class did not contribute as much as the Fund's other developed market equities to the overall absolute performance. The FTSE 250 declined during the quarter, the Fund's exposure to this sector via third party managers meant that this was a significant drag on performance.
- One of the most significant changes to the Fund over the period was to reduce its exposure to US high yield (HY) bonds in favour of emerging government bonds, corporate bonds and convertibles.
- In August 2014, Barings announced that Percival Stanion, Andrew Cole and Shaniel Ramjee are to leave Barings.
  - Percival is the head of the Barings Multi-Asset team and lead fund manager of the Dynamic Asset Allocation Fund. He also chairs the strategic policy committee and is a co-manager of the Barings Multi-Asset Fund.
  - Andrew is a co-manager of the Dynamic Asset Allocation Fund and one of founding members of the multi-asset team. He is the lead fund manager on the Barings Multi-Asset Fund and a member of the strategic policy committee.
  - Shaniel is a junior member of the multi-asset team.

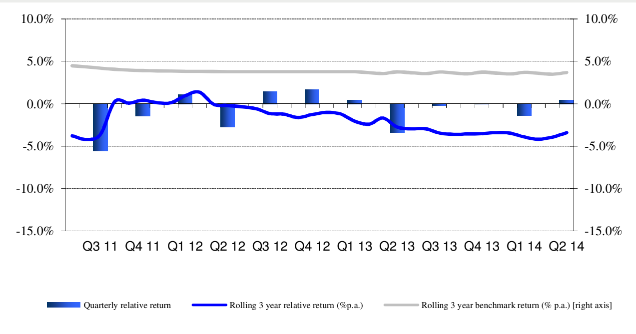
5.12 Signet – Fund of Hedge Funds

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

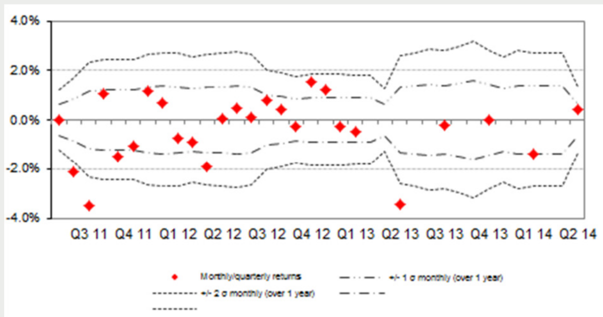
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Niche fixed income strategy focus ▪ Established team with strong track record ▪ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£67,005	1.9	25

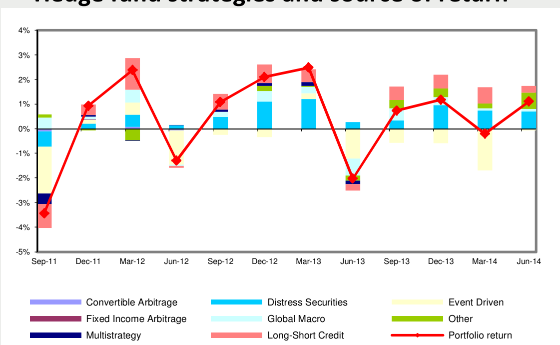
Relative returns [#1]



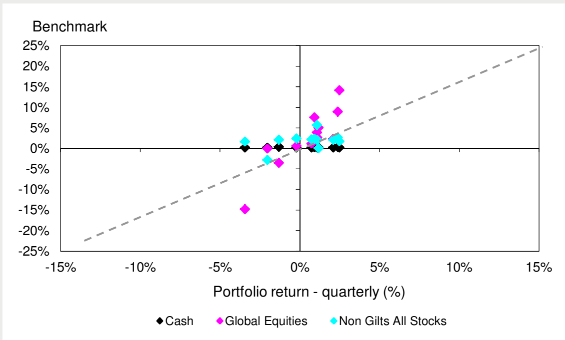
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.3	2.3	0.3
Benchmark	0.9	3.5	3.7
relative	+0.4	-1.2	-3.3

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

Comments:

- Signet has outperformed over the quarter but underperformed over both 1 year and 3 years.
- In particular, the rolling 3 year performance has remained behind the benchmark since Q2 2012.
- Most strategies contributed positively to Signet's performance, the main contributors being Distressed (0.70%) and Long-Biased Credit (0.67%).
- 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.

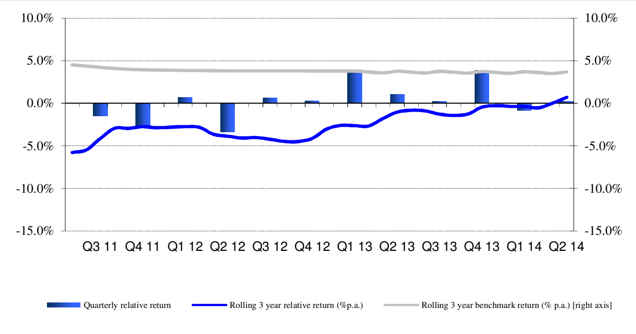
5.13 Stenham – Fund of Hedge Funds

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

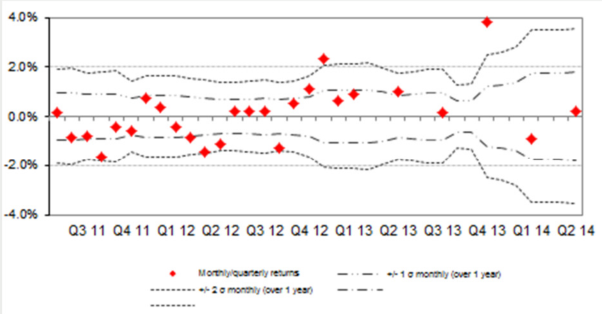
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	▪ Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies ▪ Established team, strong track record at selecting managers ▪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

Value (£'000)	% Fund Assets	Number of Funds Over The Period
£38,056	1.1	18

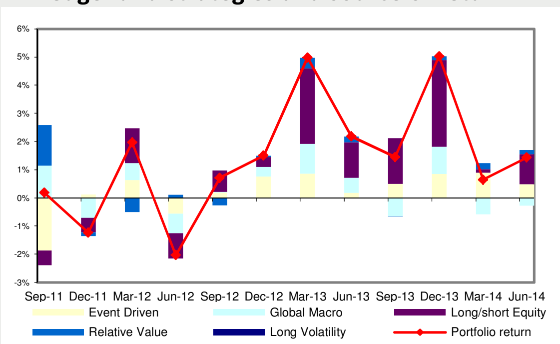
Relative returns [#1]



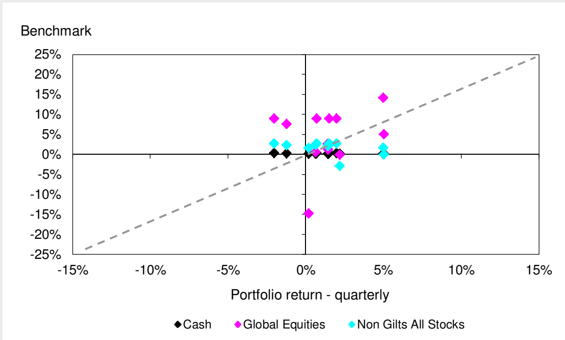
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.1	6.9	4.4
Benchmark	0.9	3.5	3.7
Relative	+0.2	+3.3	+0.7

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

Comments:

- Stenham has outperformed the target over three months, one year and three years.
- The three year performance has improved from 3.4% p.a. to 4.4% p.a. and remains ahead of the benchmark.
- Positive contributions to the quarterly absolute return came from Long/Short Equity (1.1%), Event Driven (0.5%) and Relative Value (0.2%). Global Macro contributed negatively (-0.3%).
- The allocation to the Long / Short Equity makes up 47.0% of the total Fund allocation, with Global Macro and Event Driven at around 20% each. The allocation to Cash decreased to 1.0% over the quarter.
- The number of funds fell by one to 18.
- There is no clear correlation between this Fund and cash, global equities or non-gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

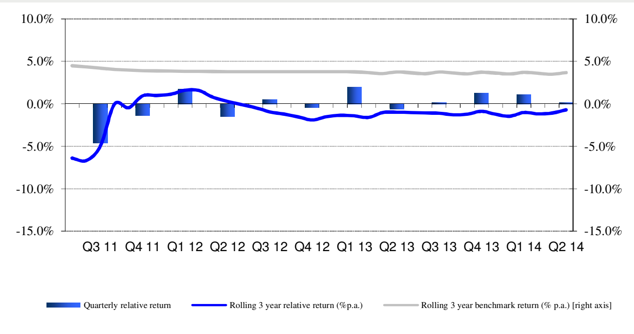
5.14 Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	2.5%	August 2007

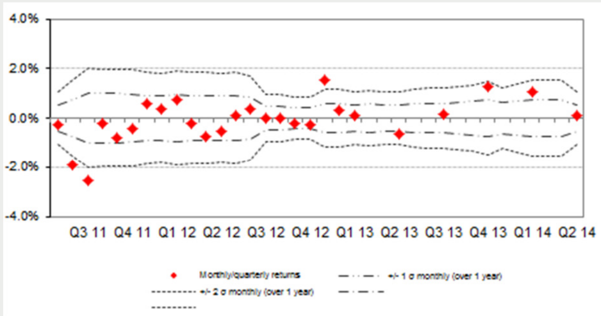
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Niche market neutral investment strategy ■ Established team, strong track record ■ Complemented other funds in portfolio

Value (£'000)	% Fund Assets	Number of Funds
£58,639	1.7	Not available

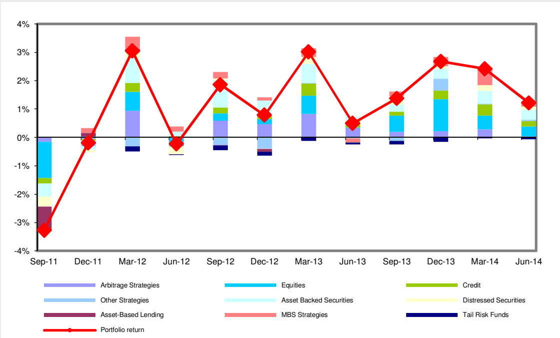
Relative returns [#1]



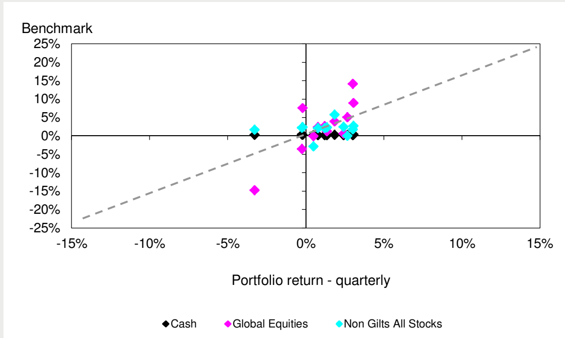
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.0	6.2	3.0
Benchmark	0.9	3.5	3.7
Relative	+0.1	+2.6	-0.7

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

Comments:

- The Fund has a diverse range of strategy exposures, Fundamental MN Equity is the largest exposure at 18.7%, with Event Driven, Asset Backed Securities, Long-Short Credit and Mortgage Backed Securities each over 10%.
- Exposure to Long-Short Credit was reduced by 1.2% in favour of Distressed Securities.
- 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.

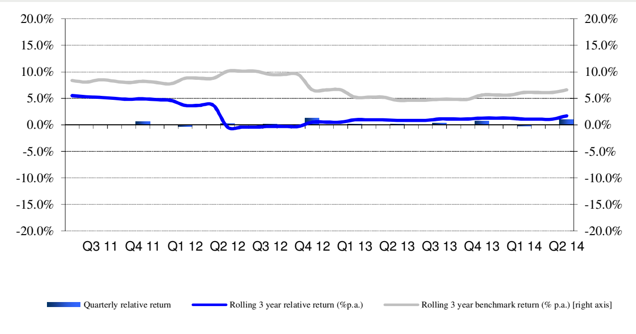
5.15 Schroder – UK Property

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

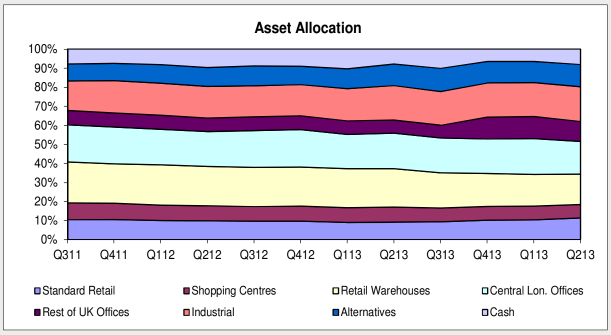
Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	■ Demonstrable track record of delivering consistent, above average performance. ■ Team though small is exclusively dedicated to UK multi-manager property management but can draw 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
£159,480	4.6	Not available	15

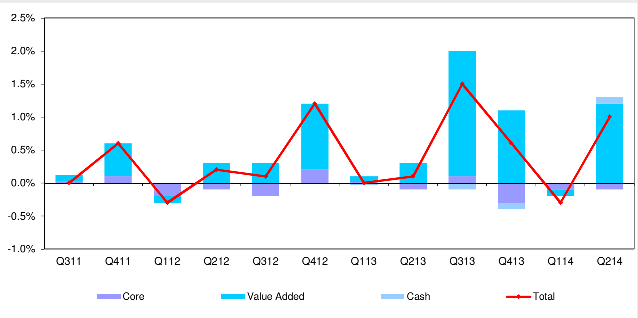
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.4	17.1	8.6
Benchmark	4.3	15.1	6.6
relative	+1.0	+1.7	+1.9

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 due to strong returns from a number of the specialist value add holdings, boosted by moderate levels of gearing. Core style funds performed broadly in line with the benchmark.
- The strongest contributor was the Industrial Property Investment Fund (IPIF), boosted by the receipt of the late Q1 price (as referred to in the last report).
- Value add funds also made the largest contribution over 12 months, in particular the West End of London PUT, which returned 31.0%.
- The three year performance remains strong, exceeding the benchmark by 1.7% per annum.
- There was one transaction during the quarter with around £2million invested into the Schroder Property Real Income Fund.
- Schroder expect the UK economy to continue to grow and property to return 7-9% per annum through to 2018. They see any short-term rise in interest rates to be compensated by rental growth.
- They are looking to reduce their central London exposure and redeploy capital to funds with a higher degree of regional exposure.

5.16 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 £118 million. A total of £2.26 million was drawn down over the quarter, across Real Estate Secondary 2009, Global Real Estate 2008 and Global Real Estate 2011. The draw downs commenced in September 2009.

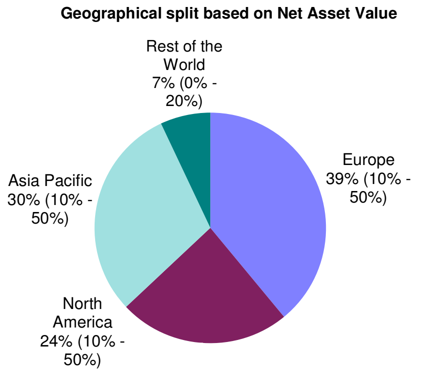
The funds invested to date have been split by Partners as follows:

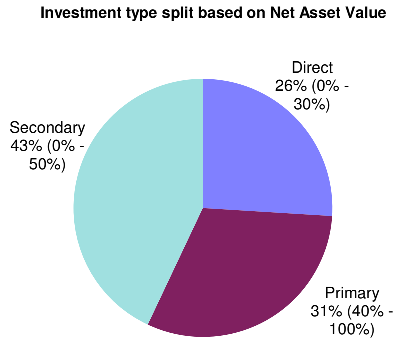
Partners Fund	Total Drawn Down (£ Million)	Net Asset Value as at 30 June 2014 (£ Million)	Since Inception Net IRR
Real Estate Secondary 2009	18.15	19.94	13.2
Global Real Estate 2008	31.01	25.44	8.1
Asia Pacific and Emerging Market Real Estate 2009	13.83	12.33	8.1
Distressed US Real Estate 2009	14.75	11.16	10.0
Global Real Estate 2011	21.60	21.08	8.6
Direct Real Estate 2011	10.49	10.95	8.4
Real Estate Secondary 2013	3.24	3.79	21.8
Global Real Estate 2013	5.16	4.95	0.5
Total	**118.24**	**109.64**	**9.3**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 30 June 2014.

The Net IRR is as expected, and in line with the mandate expectation. It is calculated using the net asset value, cash returned and the amount drawn down.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 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 Asia Pacific (from 27% to 30%) with a corresponding decrease Europe (from 42% to 39%). The allocation decreased in North America (from 25% to 24%) and Asia Pacific (from 29% to 27%). These remain within the guidelines.

The exposure to Secondary has decreased by 6% this quarter, with both Primary and Direct increasing by 3%. Primary exposure continues to be below 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.

Performance

Distributions since inception total £29.36m, with distributions worth £2.14m over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Over Q1 2014, the manager produced a return of 4.8% compared to the benchmark of 3.3%.

However, for this type of mandate a more appropriate measure of performance is the net IRR rather than the index due to the longer term value-add and opportunistic strategies of the Partners mandate when compared to a more 'core' buy and hold approach represented by the index. There will also be differences between IRR and the index because the geographies and strategies are different to the benchmark, currency fluctuations and the dilution effect of new money being invested.

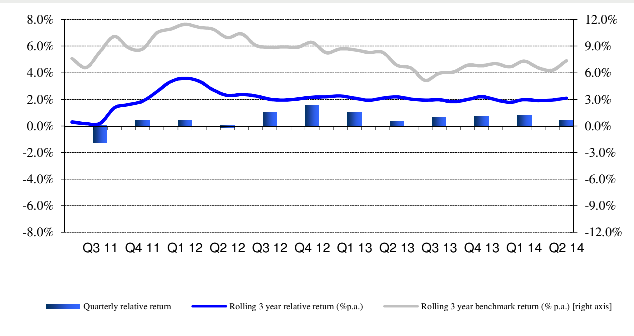
5.17 Royal London Asset Management – Fixed Interest

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

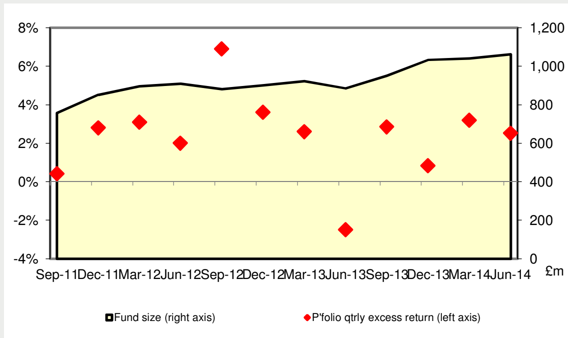
Reason in Portfolio	Reason Manager Selected
To maintain stability in the Fund as part of a diversified fixed income portfolio	▪ Focused research strategy to generate added value ▪ Focus research on unrated bonds provided a "niche" where price inefficiencies more prevalent ▪ Product size means can be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

Value (£'000)	% Fund Assets	Number of Holdings
£279,336	8.0	279

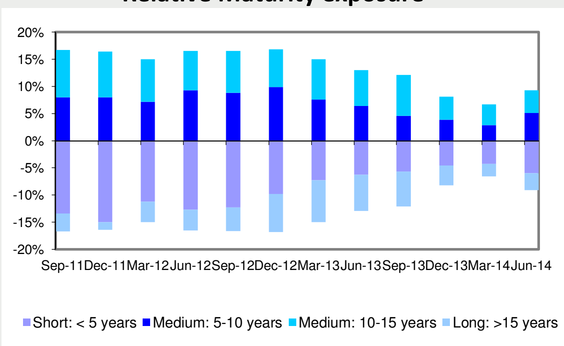
Relative returns [#1]



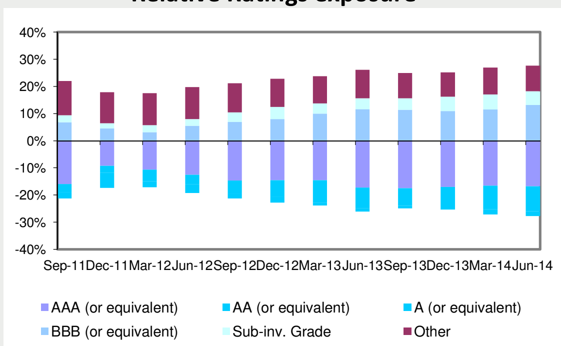
Performance v fund size [#3]



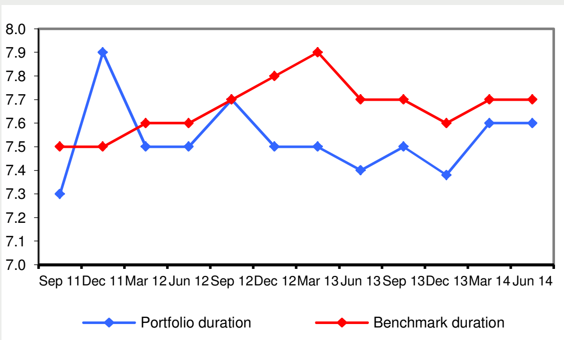
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.5	9.4	9.5
Benchmark	2.0	6.7	7.4
relative	+0.4	+2.5	+2.0

Source: Data provided by WM Performance Services, and RLAM

Comments:

- RLAM have maintained a consistent philosophy for some time - the Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds. This has benefited performance and resulted in significant outperformance at the high end of expectations for a mandate of this type.
- Similarly, RLAM favour medium term maturity bonds. This quarter they have moved to a less overweight position in long (over 15 year) bonds.
- Under this philosophy, the fund has outperformed over the quarter, one year and three year periods.
- 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.

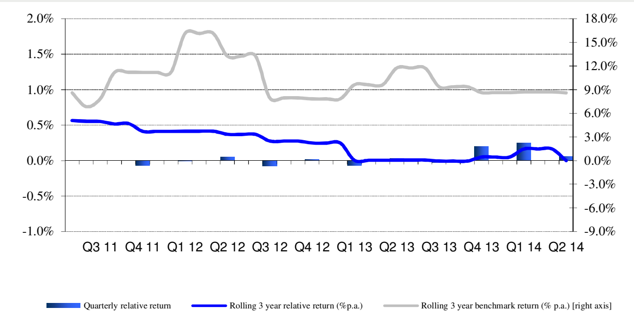
5.18 BlackRock – Passive Multi-Asset

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

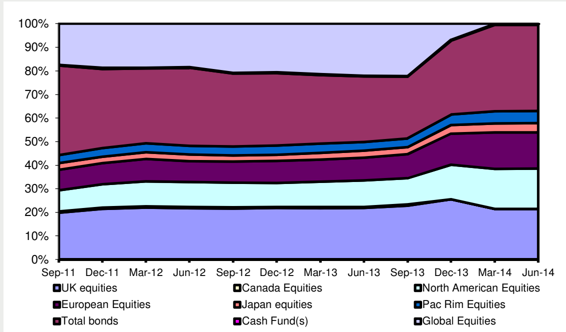
Reason in Portfolio	Reason Manager Selected
To provide asset growth as part of diversified portfolio	■ To provide low cost market exposure across multi asset classes ■ Provide efficient way for rebalancing between bonds and equities within a single portfolio

Value (£'000)	% Fund Assets
£1,038,803	29.8

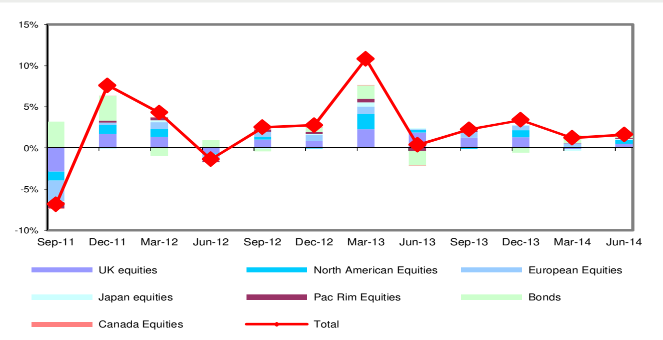
Relative returns [#1]



Asset Allocation [#5]



Contribution to absolute return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	9.0	8.7
Benchmark	1.5	8.5	8.6
relative	+0.1	+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 positive absolute return was the result of both equities and bonds rising over quarter.
- The magnitude of the relative volatility in the portfolio remains small.

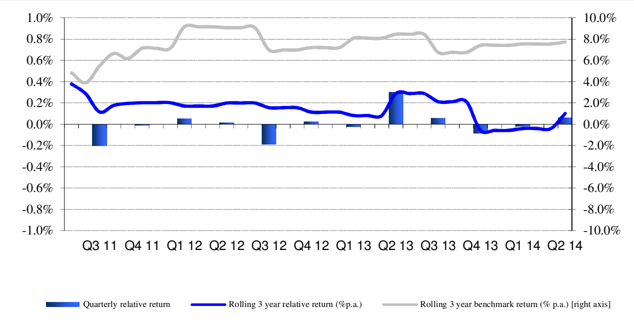
5.19 BlackRock No.2 – Property account ("ring fenced" assets)

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
£44,470	1.3

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.1	6.6	7.7
Benchmark	2.0	6.6	7.6
relative	+0.1	0.0	+0.1

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Each of the three main asset allocation holdings (UK Equity futures, US Equity and UK Gilts) generated positive absolute returns.

Appendix 1: Market Events

<table>
<tr><th>Asset Class</th><th colspan="2">What happened?</th></tr>
<tr><th></th><th>Positive Factors</th><th>Negative Factors</th></tr>
<tr><td>UK Equities</td><td>According to the National Institute of Economic and Social Research, Britain's economy witnessed its strongest calendar quarter in four years in Q2 2014, growing by an estimated 0.9%.
Data released in July showed that the labour market continues to strengthen. Unemployment fell by 121,000 to 2.12 million in the three months to May (an unemployment rate of 6.5%). This marks the lowest unemployment level since December 2008.
UK economic growth has been driven by increases in household spending and, more recently, business investments. The pick-up in household spending is reflected by the latest GfK consumer confidence survey, which in May reached levels not seen since 2005.</td><td>Office for National Statistics' figures indicate that the trade deficit grew to an estimated GBP 9.6 billion in April from GBP 8.3 billion in March. Weak demand in the Eurozone (the UK's largest trading partner) has hindered the government's efforts to support stronger manufacturing exports.
June’s report on the housing market from the Financial Policy Committee addressed evidences that less prudent lending standards were reaching pre-crisis peaks. UK house prices increased by 1% in June, taking the annual rate of increase to 11.8%.
The strength of the Pound has continued to impact the profits of many UK companies with international exposure.</td></tr>
<tr><td colspan="3">Overseas Equities:</td></tr>
<tr><td>North America</td><td>Dovish comments from the Fed chair Janet Yellen both dismissing rising inflationary pressures as "noise", and noting that the market valuations were within the historical norms, helped US equities surge to record highs.
A series of upbeat economic data pointed to a pick-up in the growth momentum for the rest of the year. The unemployment rate fell to 6.1% amidst a strengthening labour market while inflation showed signs of a pickup, moving closer to the Fed's target of 2%.</td><td>The US economy shrank in the first quarter with an annualised rate of 2.9%, much worse than the Bureau of Economic Analysis's second estimate of 1% contraction. This was the largest contraction since the first quarter of 2009. The weak number was mainly due to a smaller increase in the personal consumption than previously estimated.
After reaching record highs for nearly two years, corporate profits declined in the first quarter. Earnings before taxes fell by 10% while profits after taxes plunged nearly 14%.</td></tr>
</table>

Asset Class	What happened? Positive Factors	Negative Factors
Europe	▪ Despite disappointing corporate earnings, European equities managed to eke out marginal positive return over the second quarter. They were supported by expectations that the European Central Bank (ECB) would take steps to ease monetary policy in order to stimulate growth and fend off the spectre of deflation. The ECB launched a raft of measures to fight low inflation and boost the euro zone economy. It lowered the deposit rate to -0.1%, meaning it will effectively charge banks for holding their money overnight. It cut its main refinancing rate to 0.15% and the marginal lending rate to 0.40%.	▪ Eurozone GDP growth for the first quarter was below expectations at 0.2%. Germany led the way with a growth rate of 0.8% while France saw no growth and the Italian economy contracted by 0.1%. ▪ The Eurozone composite purchasing managers' index (PMI) hit a 35-month high of 54.0 in April but eased back to 53.5 in May and 52.8 in June, indicating a slowdown in growth over the quarter.
Japan	▪ Consumer price inflation surged to an annualised rate of 3.4% in May. This is the highest reading in nearly 32 years for an economy that has been battling deflation for better part of the last two decades. A rise in the inflation levels for 12 months in a row indicates that the effects of lose monetary policy adopted by the Bank of Japan (BoJ) has started to yield results. However, a significant portion of this rise is due to the recent hike in the sales tax from 5% to 8%. ▪ Prime Minister Shinzo Abe unveiled a package of reform proposals, including changes in labour laws, increasing corporate governance standards, and reducing corporate taxes, among others. A poll by Reuters suggests that the reforms could boost the country's growth rate by 0.2% to 1.5% in the long term.	▪ In April, the BoJ's governor put an end to the speculation of further quantitative easing by keeping monetary policy unchanged with the money supply maintaining its current annual expansion rate of 60-70 trillion Yen. This led to a strengthening of the Yen over the quarter and had a negative impact on the investor sentiment.
Asia Pacific	▪ South Korea recorded its 29th consecutive month of trade surplus owing to strong exports, which grew by 2.5% year-on-year in June. Taiwan's exports rose 1.2% year-on-year, the fifth consecutive month of growth, bolstered by strong demand for consumer goods. ▪ S&P upgraded Philippines sovereign rating by one notch to BBB in May, citing the country's strong external liquidity, investment climate and effective monetary policy framework.	▪ MSCI removed the South Korean and Taiwanese equity markets from consideration for an upgrade to developed market status from their current standing of Emerging market status. The index provider cited absence of any significant improvements in market accessibility and currency liquidity. ▪ Indonesia's GDP growth slowed to a 5-Year low of 5.2% in Q1 2014 primarily due to weakening exports. The country also reported an unexpectedly large trade deficit of nearly USD 2 billion in April.

Asset Class	What happened? Positive Factors	Negative Factors
Emerging Markets	■ The official Chinese PMI rose to a six-month high of 51.0 in June, up from 50.8 in May. This improvement suggests that the government's mini-stimulus is filtering through to the real economy. The Chinese government has made efforts to boost official spending and to let banks lend more of their deposits. ■ Investors have poured USD 221.7 billion into Emerging market assets over the past 11 months based on expectations that interest rates in most developed economies will remain low at least until 2015. A survey by Bank of America Merrill Lynch for June shows a net overweight position held by fund managers on Emerging market equities for the first time since November 2013.	■ MSCI chose not to include China's A-shares (Renminbi-denominated mainland shares) in its benchmark Emerging market equity index during its annual index review in June. Strict quota limits within the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme and concerns over the tax regime were the primary reasons for the non-inclusion of the A-shares in the index. ■ Argentina technically defaulted on its debt payment after it failed to reach a settlement with a group of US based hedge funds. In June, the US Supreme Court refused to hear Argentina's appeal to pay only the restructured bondholders and not others. The dispute between Argentina and its bond holders has been ongoing since the Argentine debt restructuring in 2005.
Gilts	■ Growth expectations in the UK are very strong owing to a surge in the construction and manufacturing sector. However, the UK's dominant sector, the services industry, has been a drag over the quarter. The monthly Markit/CIPS purchasing managers' index (PMI) for services sector dropped to 57.7 in June from 58.6 in May, marking a three-month low. ■ Modest Inflation and more than estimated spare capacity in labour market (stated by the Bank of England (BOE) in the June monetary policy meeting) are hindering the ability of the BOE to undertake interest hikes.	■ The BOE governor Mark Carney hinted at a rise in interest rates later this year during the monetary policy committee meeting in June. The reasons behind an early rate hike is that they want to avoid the chances that a stronger than expected economic growth in the second half of 2014 would reduce spare capacity in the economy. This could cause unemployment to fall faster, but also put upward pressure on wages, requiring a tighter monetary policy.
Index Linked Gilts	■ With limited issuance of new Index-linked gilts and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	■ The UK consumer price index of inflation grew by a modest 1.5% in May 2014, down from 2% in December 2013. ■ 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.
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 and the reduction in credit spreads over the past few months leaves little room for any further contraction.

Asset Class	What happened? Positive Factors	Negative Factors
Property	▪ Property values rose by 1.1% in May, marking the highest rise in 2014. UK Commercial property values have now risen by 8.5% over 13 months of consecutive growth. ▪ Residential prices in London are around 30% above their 2007 highs, while in the UK as a whole, prices are less than 1% above their pre-crisis peak. ▪ The Construction PMI rose to 62.6 in June from 60.0 in May, the highest reading since February.	▪ The new affordability tests (MMR) introduced in April for house buyers are having an effect, leading to the number of mortgage approvals falling to an 11 month low, totalling 61,707 in May. ▪ In June, the Bank of England imposed constraints on lenders to limit the proportion of mortgages at a loan-to-income ratio of 4.5 times and above to no more than 15% of their mortgage portfolios.

Economic statistics

	Quarter to 30 June 2014			Year to 30 June 2014		
	UK	Europe(1)	US	UK	Europe(1)	US
Real GDP growth	0.8%	n/a	1.0%	3.1%	n/a	2.4%
Unemployment rate	6.5%	11.6%	6.1%	6.5%	11.6%	6.1%
Previous	*6.9%*	*11.8%*	*6.7%*	*7.8%*	*11.2%*	*7.6%*
Inflation change(2)	0.5%	0.2%	0.9%	1.9%	0.5%	2.1%
Manufacturing Purchasing Managers' Index	57.5	51.8	55.3	57.5	51.8	55.3
Previous	*55.3*	*53.0*	*54.9*	*52.5*	*48.8*	*50.9*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. “Previous" relates to data as at the previous quarter or year end.

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

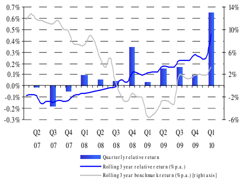
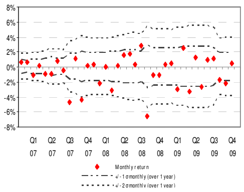
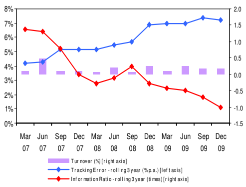
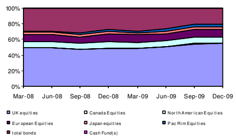
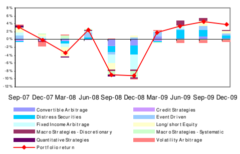
Appendix 2: Glossary of Terms

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) Infrastructure: FTSE MACQ Global Infrastructure Index 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.

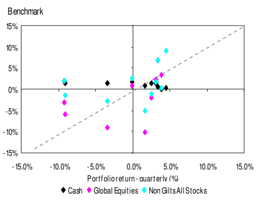
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and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

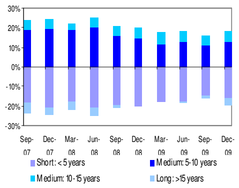
Reference	Description
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark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



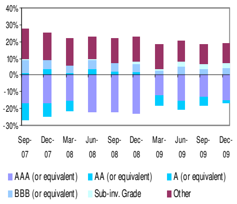
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



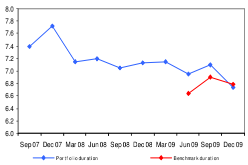
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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	+2-4%
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	

JLT

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