Review
for period to 30 September 2010

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

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Section One – Executive Summary

- This report is produced by JLT Benefit Solutions to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Highlights

- The total Fund's assets rose in value by £187m over the third quarter of 2010, to £2,492m as at the end of September 2010.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 8.1%, underperforming the customised benchmark by 0.2%. Over the last year, the Fund produced a return of 10.8%, which was ahead of the customised benchmark return of 10.4%. Over 3 years, the Fund has produced a return of 2.6% p.a., underperforming the customised benchmark by 0.8% p.a.
- The positive absolute performance over the quarter was driven by all managers producing positive absolute returns. The returns from the equity funds were the primary drivers of the positive returns followed by bonds.
- Over the year performance remains positive, however the one year return was reduced following the negative return witnessed in the second quarter and the exclusion of a robust third quarter performance in 2009 from the calculations.
- The small relative underperformance over the quarter resulted from the underperformance of a few managers, in particular Jupiter and Invesco. The assets with BlackRock and TT performed broadly in line with their benchmarks. Overall, the Fund underperformed despite outperformance from MAN, Signet, Lyster Watson and RLAM.
- There were no significant changes to the Fund's asset allocation during the quarter besides those driven by market movements.

Conclusion

- Strategic allocation: The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. We have identified no causes for concern with this strategy outside of the areas that are currently being discussed and progressed by the Investment Panel. We note that the Invitation to Tender stage of the Fund's search for a global equity investment manager closed on 11 August 2010, and the assessment of submissions received is currently underway.
- Manager Performance: We have identified no areas of significant concern regarding the managers. However, we note that the SRI constraints on Jupiter may be at the cost of continued underperformance relative to the benchmark (notwithstanding that their performance in the second quarter was very strong in relative terms) and continued volatility from this investment. This links in to wider considerations regarding the Fund's approach to Socially Responsible Investment which will be reviewed further in the near future. The performance and role of the fund of hedge fund managers is now being considered as part of the review of the fund of hedge fund investments that has recently been commenced by the Investment Panel. Besides these observations, we see no reason not to invest with any of the active managers during any rebalancing process, although given that the SRI policy is to be reviewed, this would imply that no new investment should be made with Jupiter until firmer conclusions have been drawn as to future policy.

Section Two – Market Background

- The table below summarises the various market returns to 30th September 2010, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	13.6	12.5
Overseas Equities	8.3	10.5
USA	5.7	11.8
Europe	13.3	2.3
Japan	0.1	1.2
Asia Pacific (ex Japan)	12.6	20.3
Emerging Markets	12.1	23.3
Property *	2.5	23.9
Hedge Funds *	1.0	9.2
Commodities	2.8	5.8
High Yield	2.9	19.0
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	5.8	7.8
Index-Linked Gilts (>5 yrs)	4.1	9.5
Corporate Bonds (>15 yrs AA)	6.2	12.7
Non-Gilts (>15 yrs)	6.9	12.4
Inflation Indices	**3 Mths %**	**1 Year %**
Retail Price Index (RPI)	0.4	4.6
Consumer Price Index (CPI)	0.4	3.1
Earnings Inflation **	0.3	2.6

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	5.3	-1.5
Against Euro	-5.5	5.5
Against Yen	-0.6	-8.1
Yields as at 30 Sept 2010	**% p.a.**	
UK Equities	3.17	
UK Gilts (>15 yrs)	3.85	
Real Yield (>5 yrs ILG)	0.48	
Corporate Bonds (>15 yrs AA)	4.95	
Non-Gilts (>15 yrs)	4.97	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	-0.3	-0.2
Index-Linked Gilts (>5 yrs)	-0.2	-0.2
Corporate Bonds (>15 yrs AA)	-0.4	-0.5
Non-Gilts (>15 yrs)	-0.4	-0.5

** is subject to 2 months lag

Statistical highlights

- The Chancellor, George Osborne has announced a series of public spending cuts in order to combat the huge budget deficit in the UK. The most controversial of these were the changes to welfare benefits. Mr Osborne also announced that most government departments would need to cut their budgets by 25%.

- The rate of CPI inflation decreased marginally over the quarter from 3.2% to 3.1% and has been above its 2% target for 10 consecutive months. The Bank of England base rate remained unchanged at 0.5%.
- There has been much talk of further quantitative easing in both the UK and the US. This speculation has led the $US to depreciate considerably against the Yen with the Japanese authorities stepping in with their own programme of quantitative easing to try to combat the issue.
- Equities, in the main, rebounded during the third quarter following a disappointing Q2. In Sterling terms, Japan was the only region not to post a strong return over the quarter. The FTSE All-Share Index posted the strongest return over the quarter (+13.6%) closely followed by Europe (ex UK) (+13.3%), Asia Pacific (ex Japan) (+12.6%) and Emerging Markets (+12.1%).
- All fixed interest assets produced positive returns over the third quarter.

UK market events – Q3 2010

- **Government Debt:** At the end of September 2010 UK national debt stood at £952 billion, or 64.6% of GDP, the highest for any month since 1993. The government is believed to be working on a plan to tackle Britain's £149bn budget deficit by hiving off state-owned property assets to the private sector. The Office for National Statistics estimates that government property is worth about £370bn. However, there is no comprehensive register of the entire portfolio and some City experts believe the estate could be worth around £500bn.
- **Unemployment:** The unemployment rate in the UK fell by 20,000 to 2.45 million during the three months to August 2010.The rate of unemployment fell by 0.1% to 7.7%, according to the Office for National Statistics. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 5,300 between August and September 2010 to reach 1.47 million. This is the second consecutive monthly increase in the number of claimants.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey rose to 54.9 in October 2010 from 53.5 in September 2010 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation was 3.1% in September 2010, unchanged from August 2010. RPI annual inflation was 4.6% down from 4.7% in August 2010. RPIX inflation, which excludes mortgage interest payments was 4.6% in September, again down from 4.7% in August 2010 .The equivalent annualised EU CPI figure was 2.0%. The largest downward pressures to the change in CPI inflation came from air transport, fuel and lubricants prices and second-hand car prices while the largest upward pressures came from clothing and footwear as well as from meat and fruit prices.
- **Gross Domestic Product:** In the third quarter of 2010, GDP grew by 0.8%, compared with 1.2% in the previous quarter. The growth in the third quarter is due to growth in each of the component aggregate series, namely services, construction and production. Manufacturing made the largest contribution to the growth, where output rose 1.0 per cent compared with an increase of 1.6 per cent in the previous quarter.
- **Interest Rate:** Despite inflation remaining well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been in place since March 2009. While many economists still believe rates are set

to remain at 0.5% well into 2011, stubbornly high inflation - currently just over 3% - could prompt a rate increase sooner than expected. The Bank of England has presented an upbeat growth outlook, with forecast inflation remaining above target next year, but is clearly conscious of the fragility of the recovery.

Europe market events – Q3 2010

- **European Sovereign Debt Crisis:** Europe's progress in resolving its sovereign debt crisis has eroded slightly due to domestic political resistance and worries over a debt-restructuring proposal. However, Germany's suggestion that a 440 billion euro ($614 billion) European bailout fund be replaced with a debt restructuring mechanism is being viewed by financial markets as raising the threat of default. There is also mounting concern that the eurozone crisis is on the verge of breaking out again, with Ireland's government having now called in the European Union and the International Monetary Fund to bail it out, prompted by a sharp spike in the cost of insuring Irish sovereign debt, which followed heightened speculation about Ireland's ability to stay on top of its public finances while also bailing out its crisis-hit banks.
- **Ireland:** The country is reeling from the fiscal impact of a property crash, which this year will result in the largest primary deficit in the European Union at 11.9 per cent of gross domestic product. Moreover, Fitch has downgraded Ireland’s debt rating, with a further downgrade more than likely in the next two years according to the credit rating agency. The agency has also changed its outlook on the Irish debt from stable to negative which it says, “implies a slightly greater than 50 per cent probability of a further downgrade over a 12-24 month horizon". The negative outlook reflects uncertainly regarding the timing and the strength of the economic recovery and medium-term fiscal consolidation effort. On November 11, the yield on Ireland’s 10-year government bond, which moves inversely to its price, hit 9.24%, a record 6.83-percentage point premium over the borrowing rate of Europe’s safest borrower, Germany. This was an unsustainable rate for a small, highly indebted country like Ireland.
- **Greece:** Benchmark Greek 10-year bond yields have risen to 11.30 per cent from 8.77 per cent since October 13. Greece’s debt agency (PDMA), which switched to monthly auctions of short-term debt in September, went for a smaller issue as government borrowing costs have risen in the past month. Greek banks have been locked out of markets and are reliant on ECB funding amid concerns over their Greek government bond holdings and fears of a sovereign default.
- **Spain:** Spain’s Socialist government is implementing the deepest budget cuts since 1980, including wage reductions and tax increases, to stem a surge in borrowing costs and slash the deficit by half in two years. GDP was unchanged from the previous three months after two quarters of expansion according to the National Statistics Institute in Madrid. The unemployment rate was recorded at 20.8%, the highest in the euro region.
- **Germany:** Germany remained the most important driver of Eurozone growth, with the latest PMI consistent with a quarterly rate of growth of GDP of approximately 0.6% to 0.7%, although well down from the 2.2% spurt seen in Q2 (and below a PMI-based estimate of 0.8% in Q3), but still robust by historical standards. Growth was underpinned by construction and infrastructure investments and a moderate increase in household spending, historically the German economy's weakest link. The good news came from unemployment rate figures, which decreased, to 6.7% from 7.6%.

- **Unemployment:** The EU27 unemployment rate was at 9.6% in September 2010, unchanged compared to August 2010. The unemployment rate was 9.3% in September 2009. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.4%) and Austria (4.5%) and the highest in Spain (20.8%), Latvia (19.4% in the second quarter of 2010), Estonia (18.6% in the second quarter of 2010) and Lithuania (18.2% in the second quarter of 2010).
- **Double Dip Recession:** The European economy continues to be at risk of sliding back into a recession as governments cut spending to reduce their budget deficits. Growth in Europe's services and manufacturing industries slowed more than economists forecast in August and German investor confidence slumped to the lowest in past 16 months.
- **Services and Manufacturing Sectors:** The Eurozone service sector recovery continued to lose momentum in October 2010 and was down to 53.3 from 54.1 in September 2010, the lowest level since February and had barely changed from the earlier flash estimate of 53.2. The final Markit Eurozone Services Business Activity Index fell to its lowest level since February. Manufacturing output has shown signs of improving with the seasonally adjusted PMI increasing to 54.6 in October 2010, up from 54.1 in September 2010.
- **Inflation:** The inflation rate in Euro Area was reported at 1.80 percent in September of 2010.
- **Gross Domestic Product:** GDP increased by 0.3% in the Eurozone during the third quarter of 2010.
- **Interest Rate:** The European Central Bank has maintained its decision to keep the base rate at a record low of 1.0% since May 2009.

US market events – Q3 2010

- **Unemployment:** The rate of unemployment in the US rose from 9.6% in August 2010 to 9.7% in September 2010.
- **Manufacturing and Industrial Production:** Industrial production decreased 0.2 percent in September 2010 after the increase of 0.2 percent in August 2010. The index for manufacturing decelerated sharply in the third quarter after having jumped at an annual rate of 9.1 percent in the second quarter. Factory output gained 3.6 percent in the third quarter.
- **Inflation:** Inflation rate in United States was reported at 1.10 percent in September of 2010.
- **Gross Domestic Product:** US real GDP increased by 2.0% over the third quarter of 2010, against a 1.7% increase in the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.
- **US Housing Market:** Home sales have plunged since June, when most of the purchases driven by tax credits closed, and most real estate agents expect them to remain below the levels of a year ago for several months to come.

Emerging Markets market events – Q3 2010

- Japan lost its place as the world's second-largest economy to China in the second quarter. China has been a major force behind the world's emergence from recession. China's economy will almost certainly be bigger than Japan's at the end of 2010 because of the huge difference in each country's growth rates. China is growing at about 10% a year, while Japan's economy is forecasted to grow between 2% and 3% this year. Chinese inflation jumped to its highest level (4.4%) in just over two years in October from 3.6 percent the month before, prompting new fears that the economy could be overheating as a result of the government's massive stimulus measures.

- The newly elected president of Brazil, Dilma Rousseff will face an uphill task of combating economic inflation, currency appreciation and a widening current account deficit. The current account gap has been widening and is fast approaching 3% of GDP (up from 1.5% of GDP last year), Moreover, foreign direct investment, which reached record levels in 2008 at $45 billion has declined and will not be able to finance the deficit any longer. The São Paulo stock exchange on September 24th concluded the biggest share issue to date, of Petrobras ($67bn) an oil and gas company based in Brazil.
- India's quarterly estimate of GDP for 2010-11 released at the end of August 2010 places the growth in real GDP at 8.8% in the first quarter of the current fiscal year with agriculture recoding a growth rate of 2.8%; industry 10.3% and services 9.7%. The growth in private consumption demand at 3.8% and in investment demand at 7.6% are showing signs of regaining earlier momentum. Inflation in food, which was the cause of worry for the past year, has declined to 10.60% in August 2010 from its peak of 16.22% in February 2010.

Market events – Global summary – 1 year

- The major market event over the 12 month period to 30 September 2010 was the sovereign debt problem in Greece and the possibility that the Greek government may default on its debt. Fears then spread to the possibility of contagion into the economies of Spain, Portugal, Italy and Ireland, with 'fear mongers' even citing the UK as a possible victim given its huge current deficit. A €750bn bailout package spearheaded by the German Chancellor, Angela Merkel, was put together to alleviate the problems of Greece and provide support for any other EU countries which may fall into difficulty.
- In the UK, the Bank of England added a further £25bn to its quantitative easing ("QE") programme in November 2009, bringing the total value of QE to £200bn which since then been held steady. Recently there have been calls for an increase to the QE programme with, for example, the British Chambers of Commerce arguing that the threat of inflation is significantly less than the threat of the economic recovery stalling and has called for a further £50bn to be injected into the economy. In the US, the Federal Reserve has further extended its policy of Quantitative Easing ("QE") with a further $600bn.
- UK GDP has been positive in each quarter over the year to 30 September 2010 with the UK economy officially exiting recession following the release of the Q1 2010 data. Fears of a double dip recession have some what alleviated with the release of the Q3 2010 data indicating the economy grew by 0.8%, this being much better than expected. Eurozone GDP has remained positive throughout the year despite the problems of Greece, as has US GDP.
- More recently, currencies have been the topic of much debate, in particular the US and some Eurozone countries have accused the Chinese government of manufacturing an artificially low Yuan and thus giving Chinese exporters a competitive advantage over local producers. The extension of QE in the US has also led the $US to depreciate significantly against the Yen. Japanese authorities have stepped in with their own QE programme in an attempt to depreciate their own currency relative to the US dollar to aid exporters.

- The UK base rate has remained at an all time low of 0.5% throughout the course of the last 12 months.
- Interest rates in the US and the Eurozone were also unchanged over the year at 0.25% and 1.0% respectively.

Equities

- Equities produced a strong absolute return over the year to 30 September 2010 despite an extremely poor Q2 2010.
- The market rally which began in March 2009 continued into Q4 2009 and Q1 2010. Global equities suffered a set back in the second quarter of 2010 due to a number of factors: the pace of economic recovery in both the Eurozone and the United States moderated, the European sovereign debt crisis dominating headlines, weaker than expected housing and unemployment statistics in the US and policy tightening in emerging economies such as China. Q3 2010 saw equities bounce back following better than expected second quarter corporate earnings.
- In both Sterling and local currency terms, Emerging Markets and Asia Pacific (ex Japan) produced the strongest returns, followed by the UK. Japanese equities produced the weakest returns in both Sterling and local currency terms.
- With the exception of the Europe (ex UK) region, Sterling investors will have benefited from currency movements if they were unhedged as Sterling weakened against all major currencies, except the Euro, over the year to 30 September 2010.

Bonds & credit

- The spread on long-dated AA rated corporate bond yields over long-dated gilts fell from approximately 1.4% at 30 September 2009 to 1.1% as at 30 September 2010.
- Gilt yields have remained low despite the consensus view at the beginning of the year that gilt yields had to rise to compensate for the raft of new issuance. Investors' fears regarding the downward pressure on gilt prices should the gilts within the quantitative easing programme be released into the wider market, as supply would outstrip demand, were not realised over the year to 30 September 2010.
- Gilt yields fell by approximately 0.2% over the one year period to 30 September 2010 as investors flocked to more secure investments, firstly due to fears over the possibility of a double dip recession and then due to the sovereign debt problems seen in the so called 'PIIGS' countries, Portugal, Italy, Ireland, Greece and Spain.
- Corporate bonds posted a strong absolute return over the year and correspondingly the long-dated AA rated corporate bond yield fell by approximately 0.5%.
- The return on corporate bonds continued to be driven by improved investor sentiment as the major global economies emerged from the recession.
- The real yield on index-linked gilts also fell over the 12 month period as the above target level of inflation led to an increasing excess of demand relative to supply.

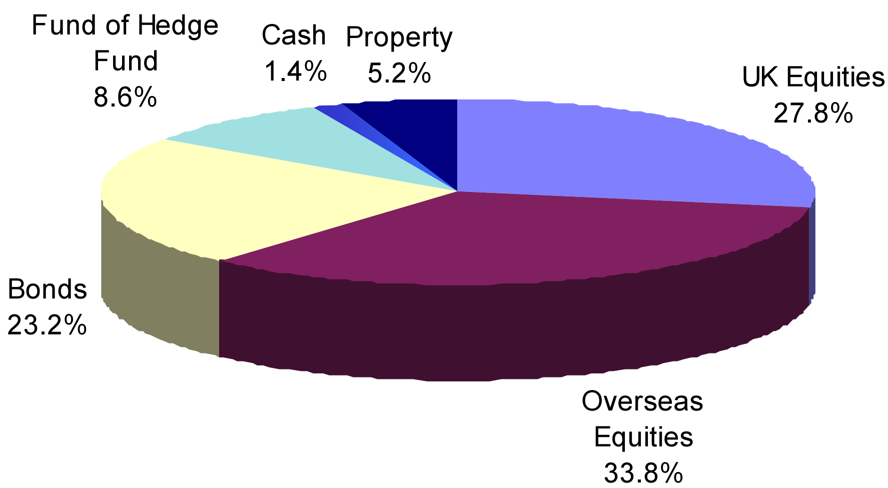
Alternative asset classes

- Property posted a positive return in each quarter over the year. The return over the year is primarily the result of capital appreciation although income has also played a notable role. The return on property has been driven by investors' belief that property prices bottomed out in mid 2009 and they have subsequently flocked back into property to take advantage of this belief. However, many investors believe that recent performance has been the result of excess demand rather than an improvement in any underlying fundamentals. This view is perhaps best demonstrated by the number of investors currently held in queues to enter investment managers' property funds.
- Hedge funds have also had a positive year but have underperformed the majority of regional equity indices, as one would expect. However, hedge fund returns have been achieved with significantly less volatility than equities. The Dow Jones Credit Suisse Hedge Fund Index has now recaptured all of the losses suffered during the recent credit crisis and has also seen significant inflows over 2010 to date. Fixed Income Arbitrage and Global Macro have been the leading hedge fund strategies over the year to date while Dedicated Short Bias strategies proved to the weakest strategy over the same period.
- Commodities have produced a modest positive return over the 12 month period to 30 September 2010. Gold prices rose by almost 30%, the price of oil rose marginally and foodstuffs such as sugar and coffee rose significantly.
- High yield bonds performed strongly with spreads relative to government bonds falling substantially, reflecting continued improving sentiment.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 30 September 2010, 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 allocation as at 30 September 2010



Asset Class	30 September 2010 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	694,363	27.9	27.0
Overseas Equities	844,303	33.9	33.0
Bonds	579,430	23.2	20.0
Fund of Hedge Funds	214,195	8.6	10.0
Cash	35,449	1.4	-
Property	129,501	5.2	10.0
Reconciling differences and rounding	-4,899	-0.2	-
TOTAL FUND VALUE	**2,492,342**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £187m over the third quarter of 2010 to £2,492m, mainly as a result of positive absolute investment performance from all asset classes. UK Equities and Overseas Equities were the asset classes which produced the highest absolute returns, 13.6% and 8.3% respectively. These assets comprise approximately 62% of the Fund's assets.
- There has been no significant change to the asset allocation, which has largely drifted with investment market movements over the quarter. There were some investments during the quarter, which included the further funding of property investments and into overseas equities.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2010		Net New Money £'000	30 September 2010	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	91,647	4.0	-	101,567	4.1
TT International	UK Equities	108,259	4.7	-	123,106	4.9
Invesco	Global ex-UK Equities	140,403	6.1	-	148,145	5.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	76,444	3.3	-	83,690	3.3
Genesis	Emerging Market Equities	123,064	5.3	-	138,629	5.6
Lyster Watson	Fund of Hedge Funds	9,530	0.4	-	9,874	0.4
MAN	Fund of Hedge Funds	92,143	4.0	-	95,591	3.8
Signet	Fund of Hedge Funds	45,059	2.0	-	46,328	1.9
Stenham	Fund of Hedge Funds	11,225	0.5	-	11,427	0.4
Gottex	Fund of Hedge Funds	50,712	2.2	-	51,433	2.1
BlackRock	Passive Multi-asset	1,180,980	51.2	5,000	1,293,335	51.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	120,337	5.2	-14,075	113,428	4.6
RLAM	Bonds	124,456	5.4	-	131,988	5.3
Schroder	UK Property	81,125	3.5	11,535	93,810	3.8
Partners	Property	32,825	1.4	1,903	34,192	1.4
Internal Cash	Cash	16,676	0.7	-4,363	15,799	0.6
Rounding		2	0.1	-	0	0.0
TOTAL		**2,304,887**	**100.0**	**-**	**2,492,342**	**100.0**

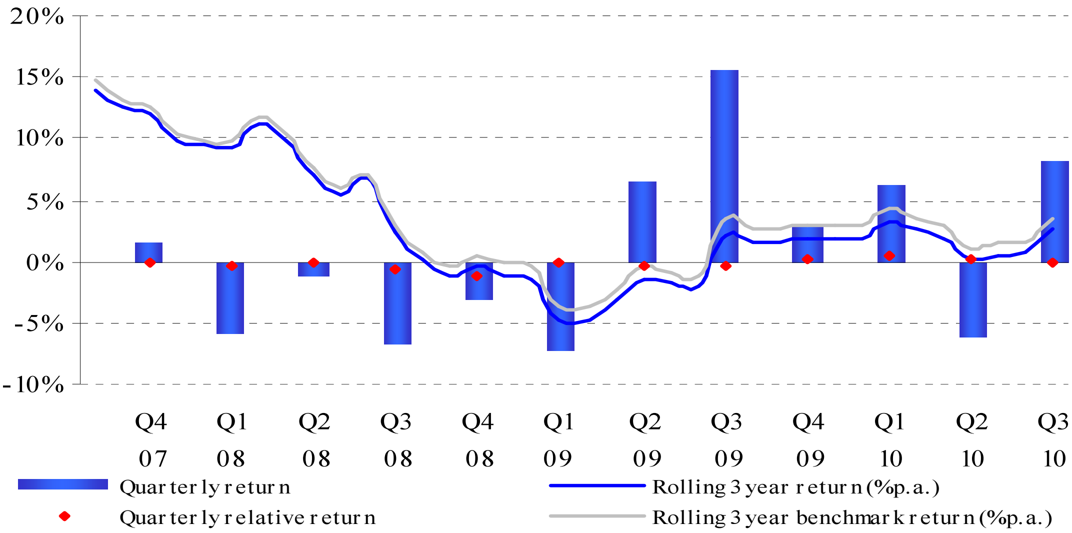
Source: Data provided by WM Performance Services

Section Four – Performance Summary

Total Fund performance

- The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance



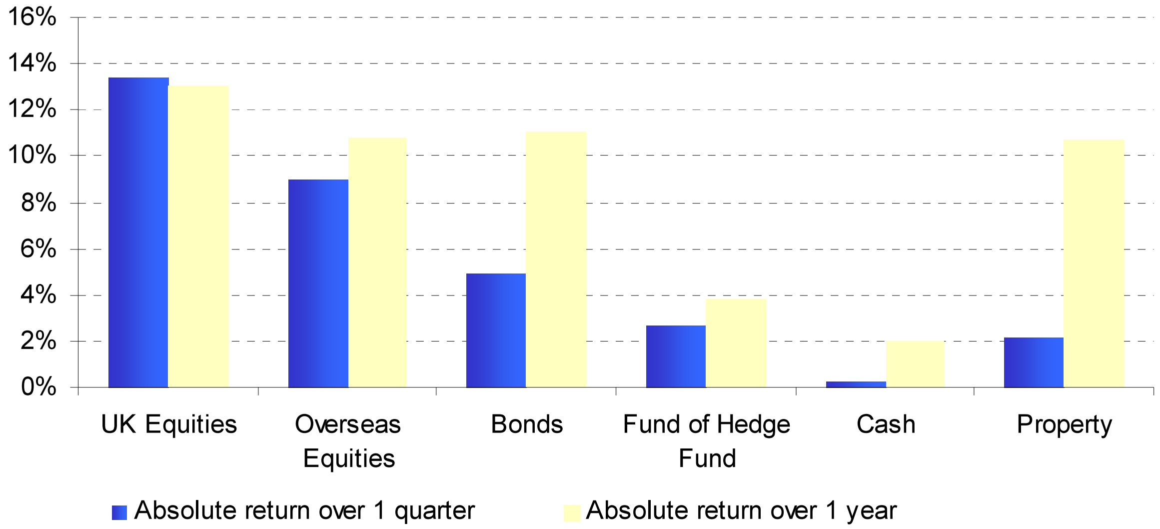
Source: Data provided by WM Performance Services

- Please note that the rolling 3 year return has been included in place of the rolling 1 year returns in previous quarters, to provide a longer term view of investment performance.
- Over the last quarter (blue bars) the total Fund's assets produced a return of 8.1%, underperforming the customised benchmark by 0.2%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 10.8%, outperforming the customised benchmark by 0.4%.
- Over the last 3 years (blue versus grey line) the total Fund's assets produced a positive return of 2.6% p.a., underperforming the customised benchmark by 0.8% p.a.
- The driver of positive absolute performance over the last quarter was the positive absolute returns from all Fund's managers, across asset classes (see page 16), in particular those within equities, both UK and overseas and bonds.
- The slight underperformance over the quarter arose from negative relative returns from a few managers, most notably Jupiter and Invesco. BlackRock (multi asset), TT and Genesis performed broadly in line with their benchmarks. There were some outperforming managers (namely MAN, Signet, Lyster Watson and RLAM) however these were outweighed by the negative relative returns of Jupiter and Invesco.

Asset classes performance

- The chart and table below show the absolute performance of the Fund's assets by asset class over the quarter and year to 30 September 2010. Note that the returns from the BlackRock Multi-Asset portfolio and the second BlackRock portfolio, which hold a combination of asset classes, are aggregated within the relevant asset class returns.

Asset class absolute performance to 30 September 2010



Source: Data provided by WM Performance Services

- Over the third quarter of 2010, all asset classes produced positive absolute returns.
- The key drivers of absolute performance are:
- UK and overseas equity markets produced returns of 13.4% and 9.0% respectively.
- Sterling depreciated against the Euro and Yen over the quarter, meaning a higher return on the Euro and Yen denominated overseas equities in Sterling terms. Sterling appreciated against the Dollar, meaning a lower return on the Dollar denominated overseas equities in Sterling terms. All major markets produced positive returns for the quarter in local currency terms. The highest local currency return came from the Asia Pacific region, and the lowest from the Japan region.
- Bonds produced positive absolute returns of 4.9% over the quarter, with the highest bond returns being produced by UK government bonds followed by UK index-linked bonds.
- The fund of hedge fund portfolio produced a positive return of 2.6%.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 30 September 2010:

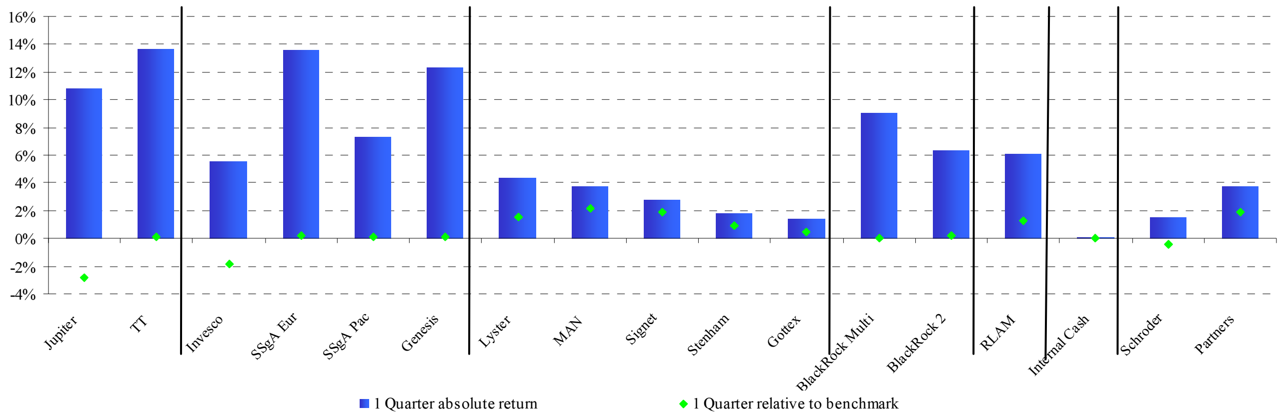
Asset Class	Weight in Strategic Benchmark	Q3 2010 (index returns)	1 year (index returns)
UK Equities	27%	13.6%	12.5%
Overseas Equities	33%	8.3%	10.5%
Index Linked Bonds *	6%	3.6%	9.5%
Gov Bonds – Fixed *	14%	3.6%	7.3%
Corporate Bonds *		5.5%	12.7%
Hedge Funds	10%	5.4%	9.6%
Property	10%	2.2%	22.6%
Total Fund	**100%**		

*Please note that these are 'all maturities' index returns and so may differ from the 'long maturities' index returns shown on the Market Background page in Section Two.

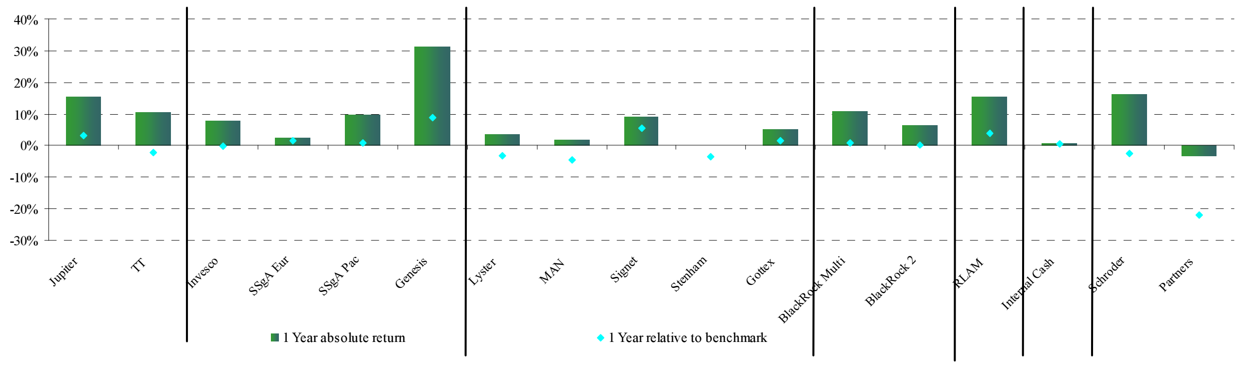
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of September 2010. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 30 September 2010



Absolute and relative performance - year to 30 September 2010

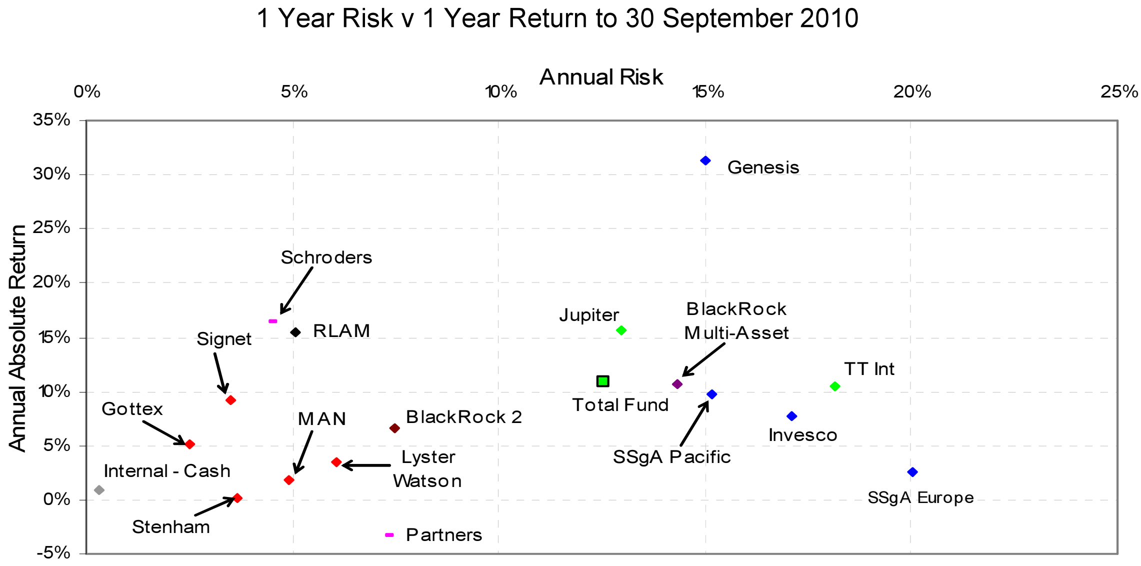


Source: Data provided by WM Performance Services

- All of the Fund's investment managers produced positive absolute returns over the quarter.
- Over the quarter, the strongest absolute performance came from the TT. In relative terms MAN performed the best over the quarter, outperforming their benchmark by 2.2% while the worst relative performance came from Jupiter, who underperformed their benchmark by 2.8%.
- Over the year, all of the absolute returns were positive, except for Partners who are still in the process of investing the mandate. Of note is the one year return achieved by the Genesis Emerging Markets equity portfolio, which was 31.3%, well ahead of its benchmark return of 22.3%.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2010 of each of the funds, along with the total Fund.

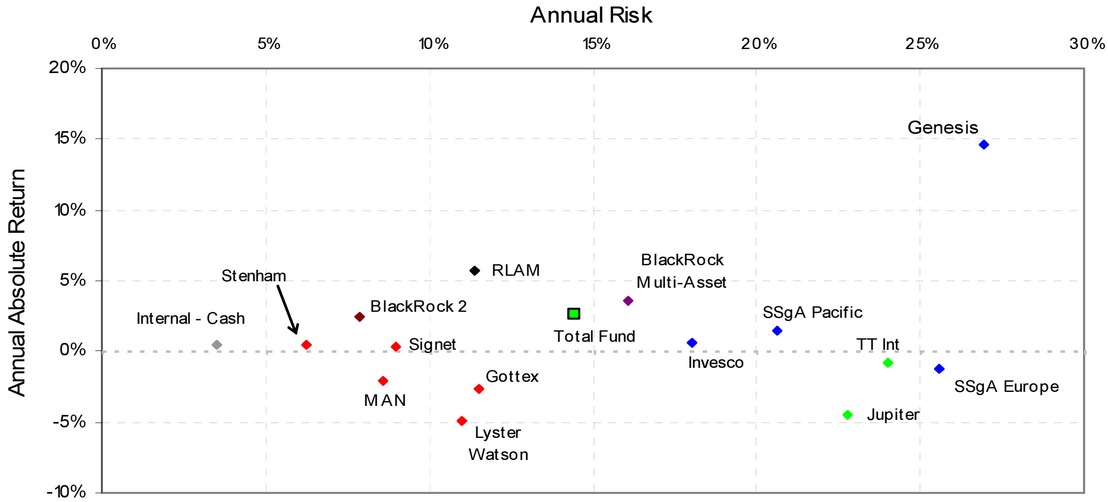


Source: Data provided by WM Performance Services

- 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
  - Green Square: total Fund
  - Pink: Property
- Note: Partners property fund is not included in the charts due to unavailability of data.

- The volatility of returns over the year has overall very marginally reduced compared to last quarter. The funds where volatility decreased notably compared with the last quarter were BlackRock Multi-Asset and Genesis while the others were broadly in line with the previous quarter. Overall the changes to the volatility in the hedge funds were marginal.
- There has again been a shift downwards in the annual returns compared to the last quarter. This was driven by the fact that these funds produced negative returns over the second quarter of 2010 and the exclusion of strong returns in the third quarter of 2009 from the 1 year calculations.
- The returns from the fund of hedge funds are again at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (i.e. to the extreme left).
- The very strong absolute return from Genesis over the last year has provided a very good risk adjusted return, compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

3 Year Risk v 3 Year Return to 30 September 2010



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
  - Green Square: total Fund

- The returns from the fund of hedge funds are at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (i.e. to the left).
- The very strong absolute return from Genesis over the last 3 years has provided a very good risk adjusted return, compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

Section Five – Manager Performance

- This section provides a 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.

Summary of conclusions

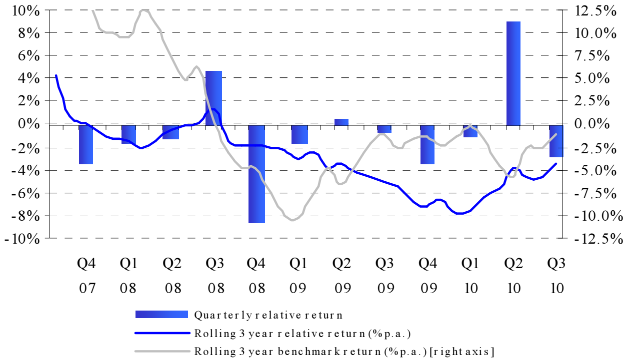
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, we do note that SRI remains under ongoing consideration by the Investment Panel and Committee, which would imply that any new investment with Jupiter should be at least subject to discussion until firm conclusions as to the practical implications of this review are reached.
- UK Equity Funds:
  - Jupiter underperformed over the quarter partly due to their underweight allocation to the Mining and Oil and Gas sectors; which produced positive absolute returns over the quarter, as such this position contributed to the negative relative returns over the period.
  - TT International marginally outperformed its benchmark over the quarter, with the overweight positions in Consumer Services and Basic Materials, and underweight in Financials and Consumers Goods.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced marginal outperformance relative to the benchmarks over the quarter. Invesco, however produced negative relative returns over the quarter, although, as has been noted in previous reports, their performance can be affected by the 'timing' of the pricing of the fund compared to the benchmark index, particularly in more volatile market conditions.
- Emerging Markets: Genesis marginally outperformed their benchmark over the quarter, and produced a positive absolute return. The absolute return was driven by equity markets themselves, which overall produced positive returns over the quarter; the relative return was driven by Emerging Market equity returns and stock selection. The latest quarter of outperformance was the sixth consecutive quarter of outperformance from the manager.
- Fund of Hedge Funds:
  - In September Stenham Asset Management acquired boutique discretionary management company Montier Partners, bringing total assets under management to $3.5 billion.
  - In October Man Group plc and GLG Partners announced that the recommended acquisition of GLG by Man was completed on October 14th, to create a multi-style, performance-focused alternative asset manager with funds of around $63 billion under management. GLG is now a wholly owned subsidiary of Man.
  - Hedge funds underperformed equities in this quarter as compared to the second quarter when hedge funds outperformed equities. This is as we would expect.

- All the fund of hedge funds managers outperformed their benchmarks this quarter. The best performing fund of hedge funds manager in relative terms was MAN and the bottom performer was Gottex.
- Over the year to 30 September 2010, only Signet and Gottex are ahead of their objectives.
- For the first time in a year, MAN has outperformed its benchmark. The key driver of the outperformance was the high allocation to Commodities and Long/Short Asia Pacific.

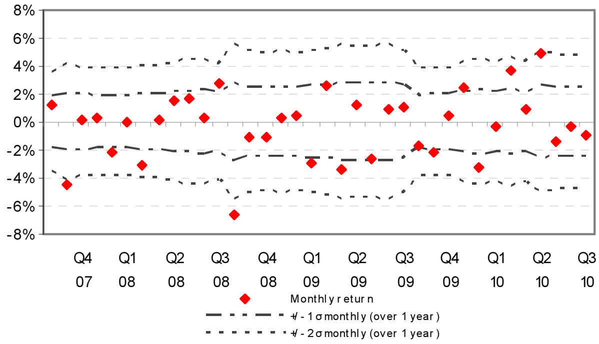
* BlackRock Passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
* Fixed Interest: RLAM have outperformed their benchmark in the last quarter. There are no notable changes in the risk profile of their fund.
* Property: Performance of the property funds over the quarter was positive in absolute terms. Partners outperformed their benchmark, whilst Schroders underperformed. Due to the short period since investment in the property funds, details are not provided in the charts following. These will be included in the future, once sufficient performance history is available. For the time being, a qualitative assessment is included for each of these two managers.
* Once again, we note that the Investment Panel's scheduled three year review of the fund of hedge fund managers has recently commenced.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

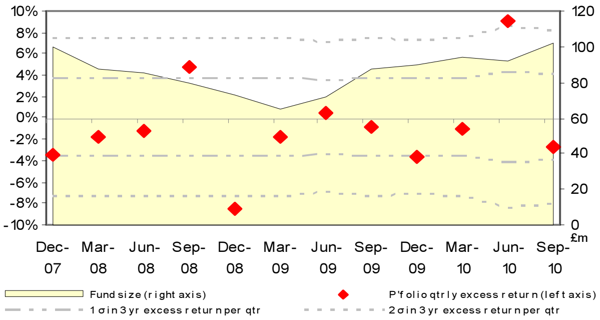
Relative returns [#1]



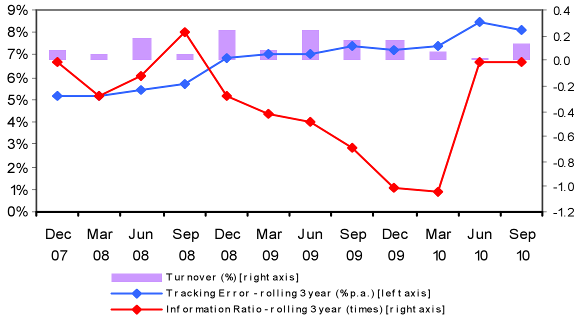
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



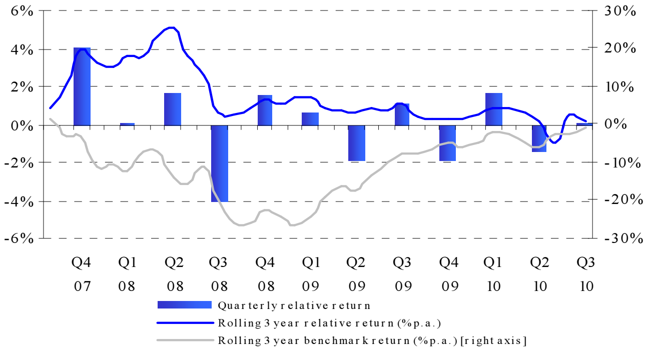
Source: Data provided by WM Performance Services, and Jupiter

Comments:

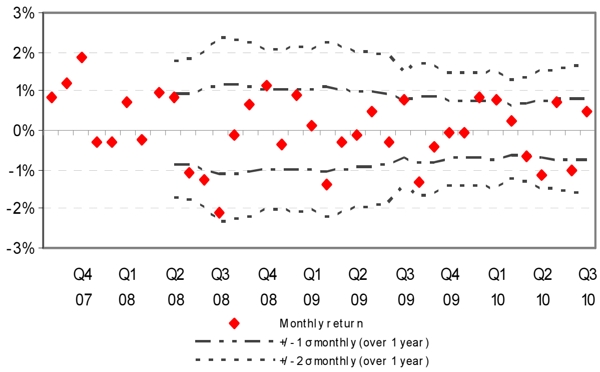
- Over the last quarter the Fund underperformed the benchmark by 2.8%, producing an absolute return of 10.8%.
- Over the last year the Fund outperformed the benchmark by 3.2%, producing an absolute return of 15.7%. Over the last 3 years the Fund underperformed the benchmark by 3.5% p.a., producing an absolute return of -4.5% p.a.
- Over the third quarter of 2010, small cap stocks underperformed mid and large cap stocks (11.5%: 13.8%: 13.2% respectively). The underperformance of small caps adversely affected Jupiter's relative performance.
- The Fund has a small exposure to cash (4.4%) which had a negative impact on absolute performance.
- The industry allocation is considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q3 2010, Jupiter were significantly underweight Mining and Oil and Gas, Basic Materials, Consumer Goods and Financials, with significantly overweight in Industrial, Utilities and Consumer Services.

TT International – UK Equities (Unconstrained)

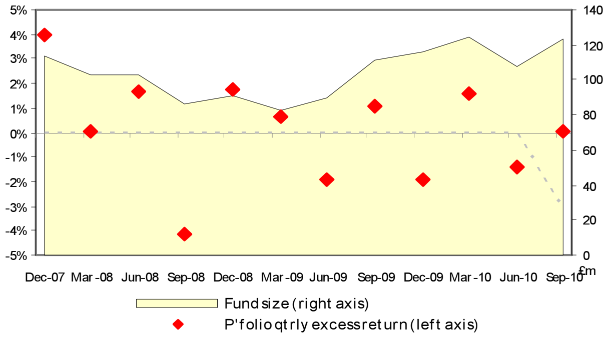
Relative returns #1



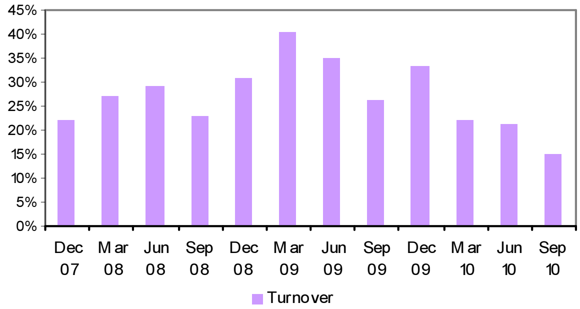
Monthly relative returns #2



Performance v fund size #3



Turnover #4

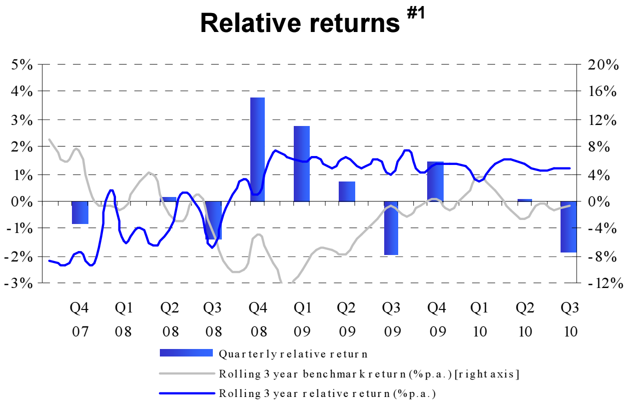


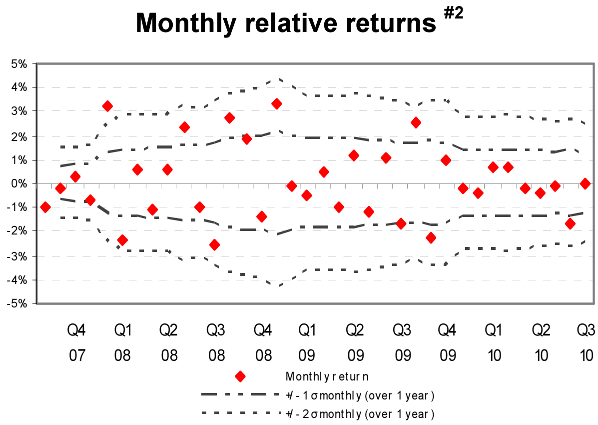
Source: Data provided by WM Performance Services, and TT International

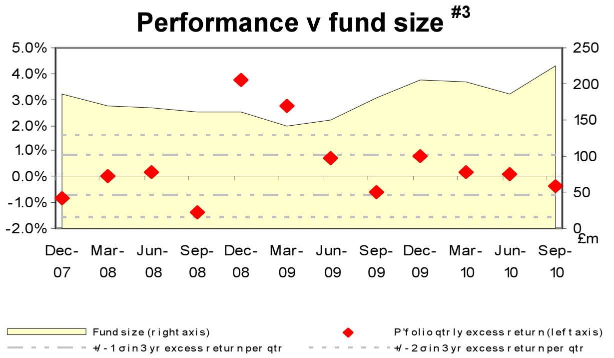
Comments:

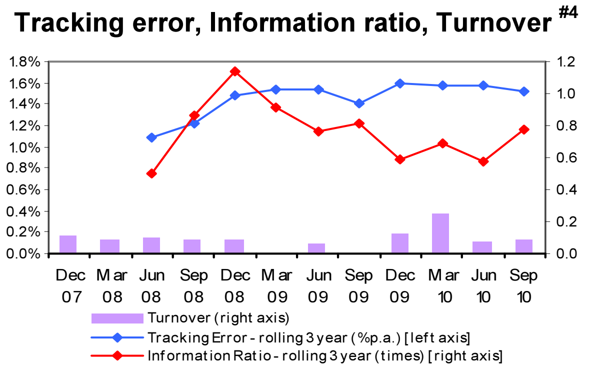
- Over the last quarter the Fund marginally outperformed the benchmark by 0.1%, producing an absolute return of 13.7%.
- Over the last year the Fund underperformed the benchmark by 2.1%, producing an absolute return of 10.4%. Over the last three years the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of -0.8% p.a.
- The Fund was overweight in the Consumer Services and Basic Materials sectors by 6.4% and 5.1% respectively and underweight in the Financials by 5.4%.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover has fallen to 15.1% for Q310 as compared to 21.4% in the previous quarter.
- Apart from the particularly poor quarter in Q3 2008, the volatility of this Fund relative to the benchmark is lower than that of Jupiter. This is driven by the fact that TT International's sector positions tend to reflect the benchmark more than Jupiter's (which are a product of their Socially Responsible Investment brief). This more pragmatic style may be more suited for investment when rebalancing to active UK equities, not least given the review of SRI and Corporate Governance planned for 2011.

Invesco – Global ex-UK Equities (Enhanced Indexation)







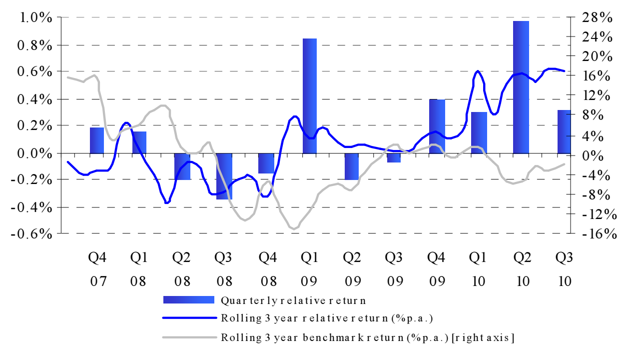


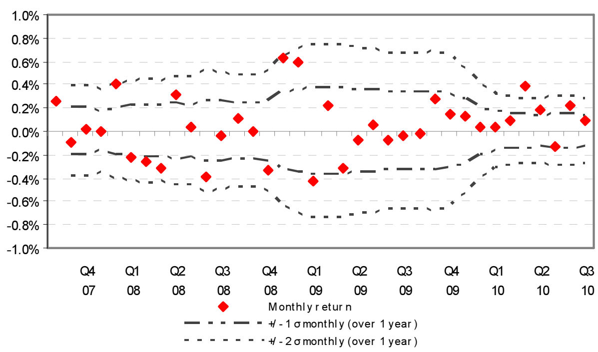
Source: Data provided by WM Performance Services, and Invesco

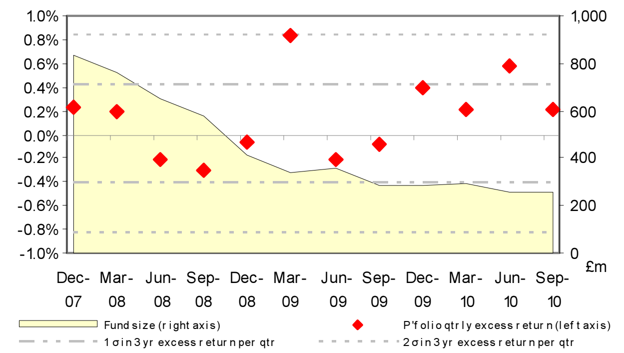
Comments:

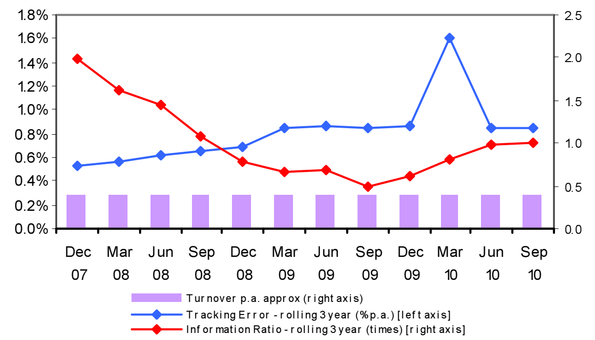
- Over the last quarter the Fund underperformed its benchmark by 1.9%, producing an absolute return of 5.5%.
- Over the last year the Fund underperformed the benchmark by 0.3%, producing an absolute return of 7.7%. Over three years, the Fund outperformed, by 1.2% p.a., producing an absolute return of 0.6% p.a.
- Over the last quarter, stock selection was the main contributor to the negative relative return while country selection and style marginally added positively to the relative return. The timing of the pricing of the Fund versus the benchmark also remains a factor in its short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time, as the particularly volatile period in 2008 has rolled out of the calculations. As an enhanced indexation, fund the magnitude of the volatility is quite low. The larger deviations from the benchmark tend to be upwards, which is favourable.
- Turnover increased slightly over Q3 2010, however it remained low, as expected for this mandate. The number of stocks remains at approximately 500, which reduces stock specific risk through diversification.
- The industry allocation is relatively in line with the benchmark industry allocations, with a maximum difference of a 2.1% overweight in Information Technology.

SSgA – Europe ex-UK Equities (Enhanced Indexation)









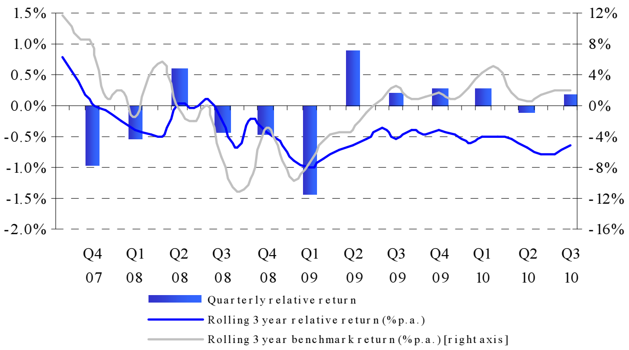
Source: Data provided by WM Performance Services, and SSgA

Comments:

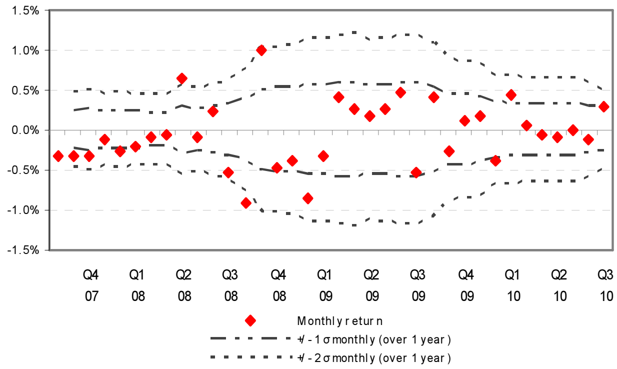
- State Street Global Advisors (SSgA) announced on 22 October 2010 that they were to acquire Bank of Ireland Asset Management (BIAM) for approximately €57 million inclusive of estimated net assets of the business of €14 million. This is not expected to have any impact on the investment mandate.
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 13.6%.
- Over the last year the Fund outperformed the benchmark by 1.5%, producing an absolute return of 2.6%. Over the last 3 years the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of -1.2% p.a.
- Stock selection has been the primary driver of relative performance, continuing to account for approximately 90% of relative performance.
- The volatility of monthly relative returns has declined over the last year. As an enhanced indexation fund the magnitude of the volatility is very low.
- Turnover and number of stocks remains consistent over the last 3 years. The tracking error has remained flat since the last quarter.
- Given its reasonable return and low risk this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities subject to the strategic benchmark constraints.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

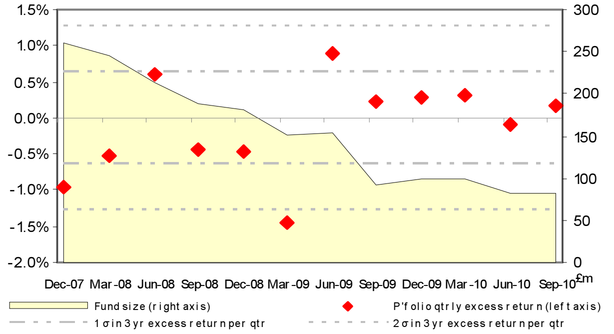
Relative returns #1



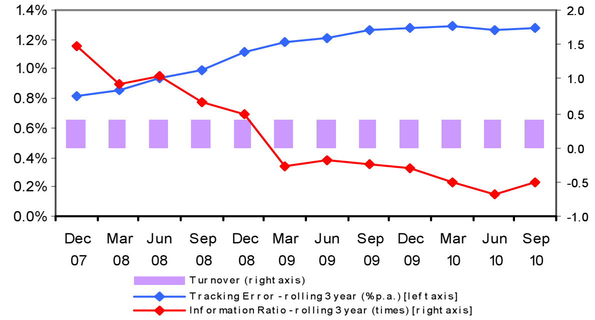
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



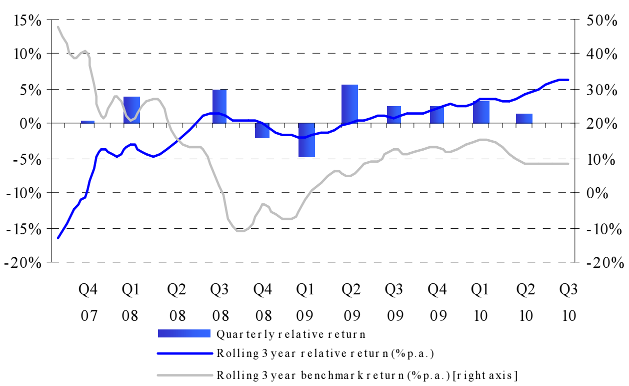
Source: Data provided by WM Performance Services, and SSgA

Comments:

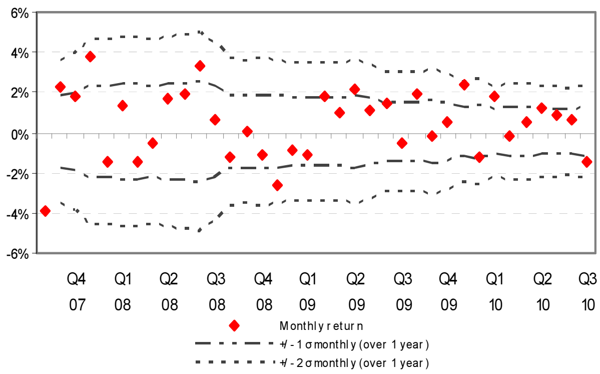
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 7.3%.
- Over the last year the Fund outperformed the benchmark by 0.7%, producing an absolute return of 9.7%. Over the last 3 years the Fund underperformed the benchmark by 0.7% p.a., producing an absolute return of 1.4% p.a.
- Similar to the other SSgA portfolio, stock selection has been the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- The industry allocation remains close to the benchmark allocation, as would be expected from an enhanced indexation fund.
- Given its reasonable return and low risk this Fund would also appear to be suitable for new contributions or suitable for investment if rebalancing is required.

Genesis Asset Managers – Emerging Market Equities

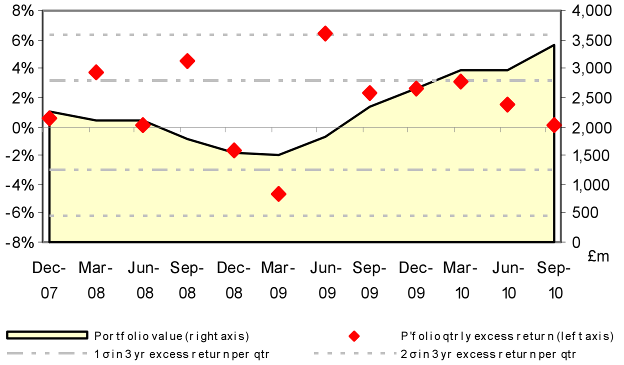
Relative returns #1



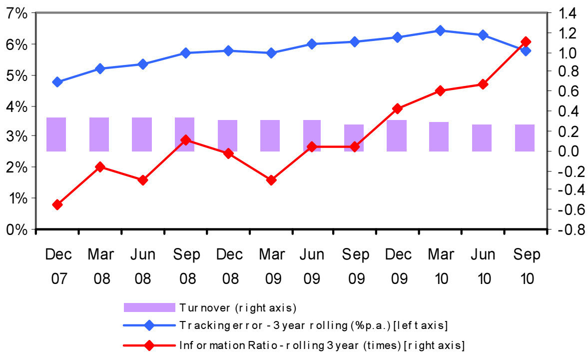
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



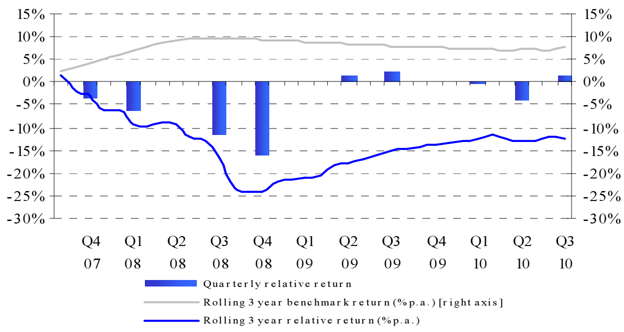
Source: Data provided by WM Performance Services, and Genesis

Comments:

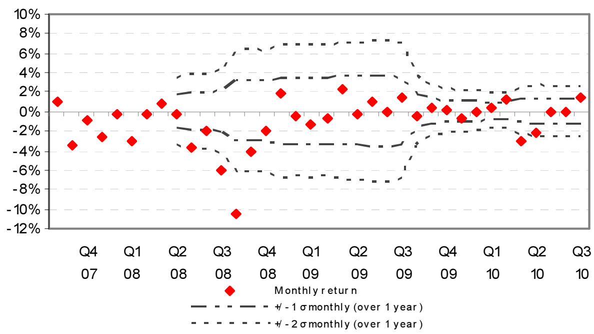
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 12.3%.
- Over the last year the Fund outperformed the benchmark by 9.0%, producing an absolute return of 31.3%. Over the last 3 years the Fund outperformed the benchmark by 6.5% p.a., producing an absolute return of 14.7% p.a.
- The Fund is overweight to South Africa, Russia and Brazil, and underweight India and China. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries. Note that the China underweight is partly due to the restrictions on non-local investors.
- The 3 year tracking error (proxy for risk) fell 49 bps (almost 0.5%) over the quarter. The 3 year information ratio (risk adjusted return) rose significantly over the quarter to 1.11 in Q310 as compared to 0.67 in Q210.
- On an industry basis, the Fund is overweight in Consumer Staples (+8.9%) and underweight Information Technology (-3.5%) and Energy (-3.7%).

Lyster Watson Management Inc – Fund of Hedge Funds

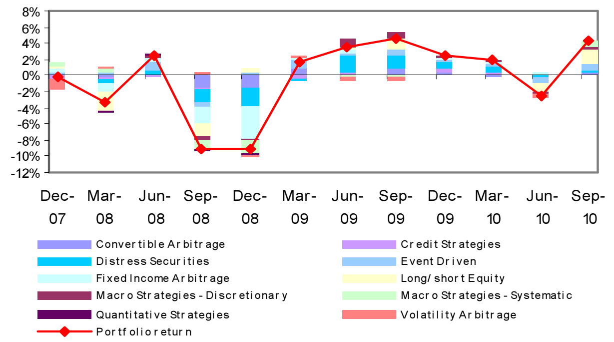
Relative returns [#1]



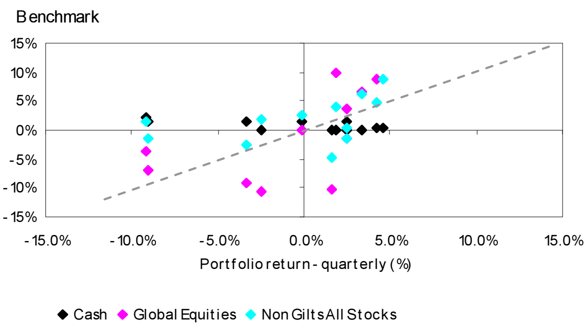
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



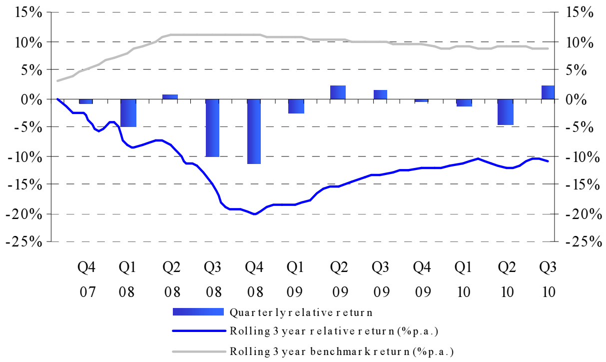
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

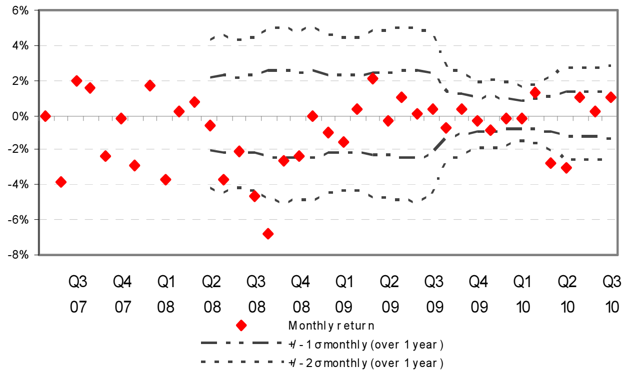
- Over the last quarter the Fund outperformed the benchmark by 1.5%, producing an absolute return of 4.4%.
- Over the last year the Fund underperformed the benchmark by 3.1%, producing an absolute return of 3.4%. Over the last 3 years the Fund underperformed the benchmark by 12.5% p.a., producing an absolute return of -4.9% p.a.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation of 41.4% to Distressed Securities and Long/Short Equity strategies.
- 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.

MAN – Fund of Hedge Funds

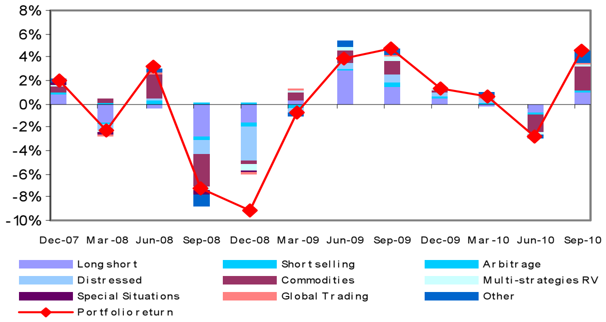
Relative returns #1



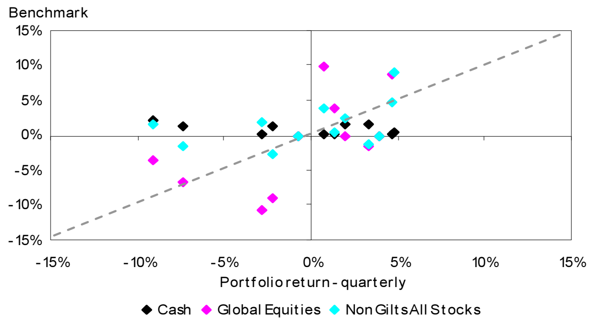
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



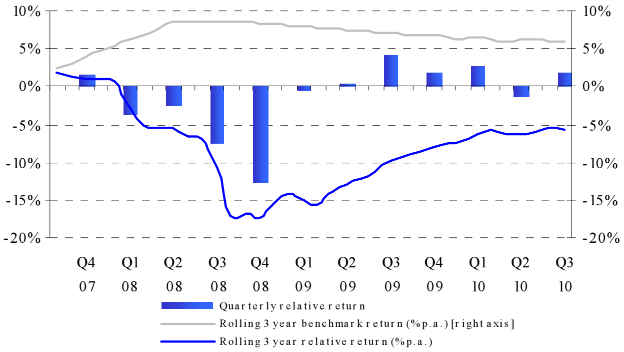
Source: Data provided by WM Performance Services, and MAN

Comments:

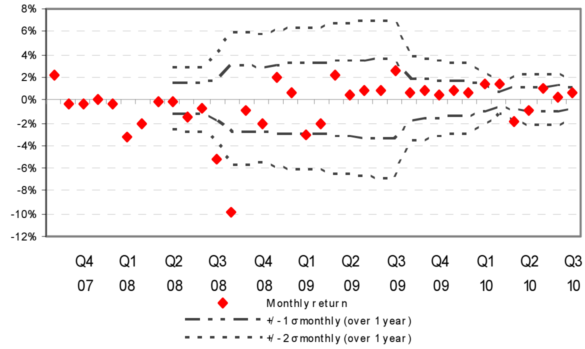
- Over the last quarter the Fund outperformed the benchmark by 2.2%, producing an absolute return of 3.8%.
- Over the last year the Fund underperformed the benchmark by 4.6%, producing an absolute return of 1.8%. Over the last 3 years the Fund underperformed the benchmark by 10.8% p.a., producing an absolute return of -2.1% p.a.
- The key driver of performance was the high allocation to Commodities and Long/Short Asia Pacific, while most strategies produced returns that where either slightly positive or broadly neutral baring Long/Short Japan and Special Situations which produced very marginal negative returns.
- The Fund has a diverse exposure to hedge fund strategies, although 62.4% is made up of Long/Short and Commodities strategies.
- 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.

Signet – Fund of Hedge Funds

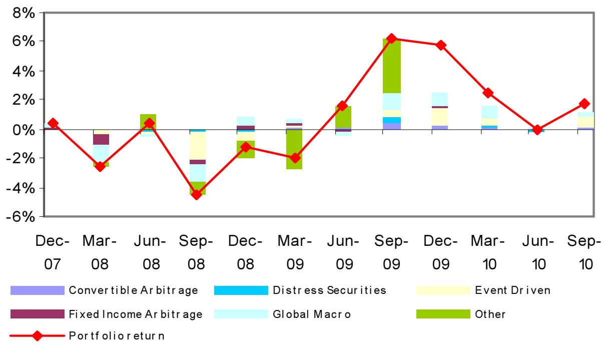
Relative returns #1



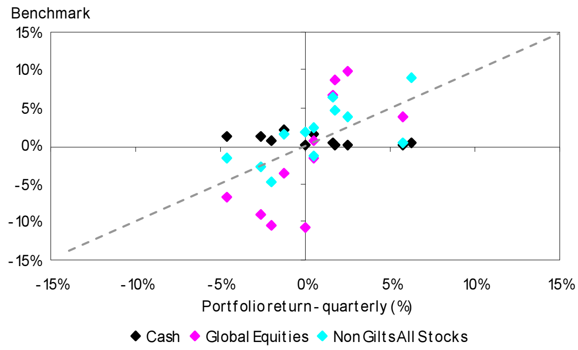
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



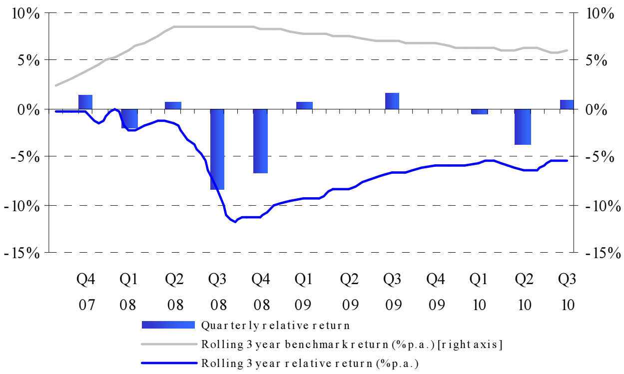
Source: Data provided by WM Performance Services, and Signet

Comments:

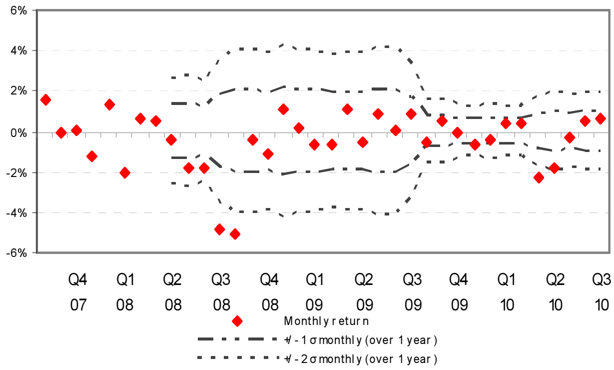
- Over the last quarter the Fund outperformed the benchmark by 1.9%, producing an absolute return of 2.8%.
- Over the last year the Fund outperformed the benchmark by 5.5%, producing an absolute return of 9.2%. Over the last 3 years period Fund underperformed the benchmark by 5.6% p.a., producing an absolute return of 0.4% p.a.
- 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.

Stenham – Fund of Hedge Funds

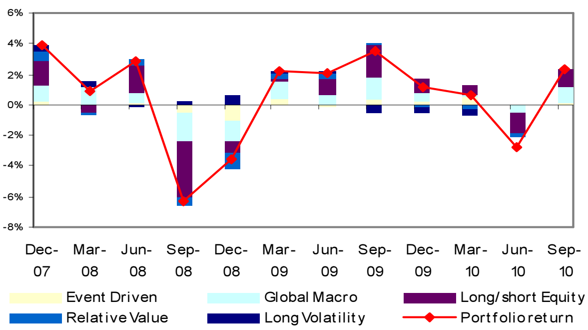
Relative returns #1



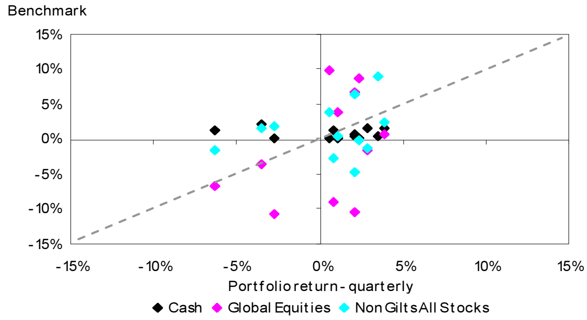
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



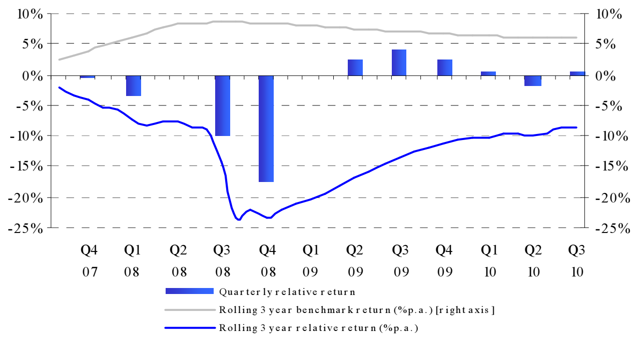
Source: Data provided by WM Performance Services, and Stenham

Comments:

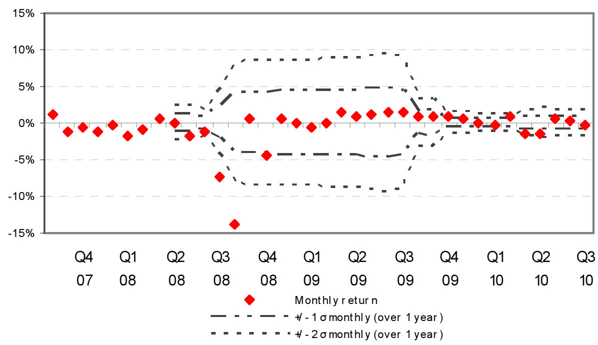
- In September 2010, Stenham Asset Management acquired boutique discretionary management company Montier Partners, bringing total assets under management (AUM) to $3.5 billion.
- Over the last quarter the Fund outperformed the benchmark by 0.9%, producing an absolute return of 1.8%.
- Over the last year the Fund underperformed the benchmark by 3.6%, producing an absolute return of 0.1%. Over the last 3 years, the Fund underperformed the benchmark by 5.6% p.a., producing an absolute return of 0.4% p.a.
- The main contributors to the positive absolute performance were Global Macro and Long / Short Equity, however all the underlying strategies produced positive absolute returns.
- The allocation to the Global Macro and Long/Short Equity strategies made up 72% of the total Fund allocation. The allocation to cash decreased from 7.5% to 5.1% over the quarter.
- 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.

Gottex – Fund of Hedge Funds

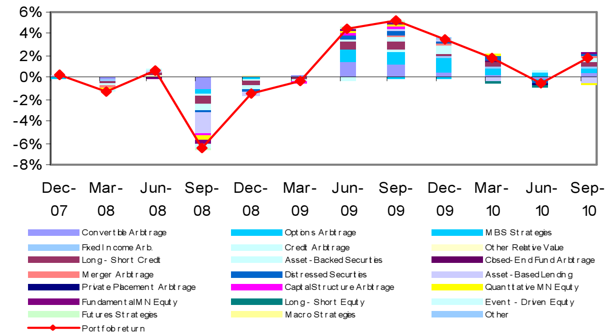
Relative returns [#1]



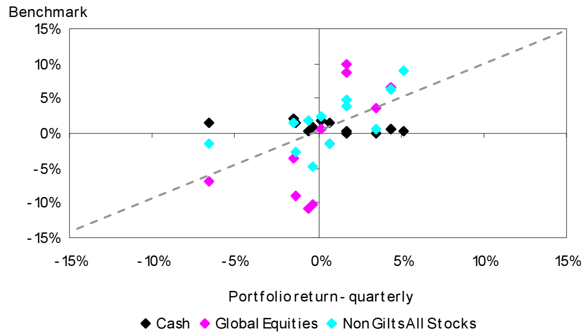
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



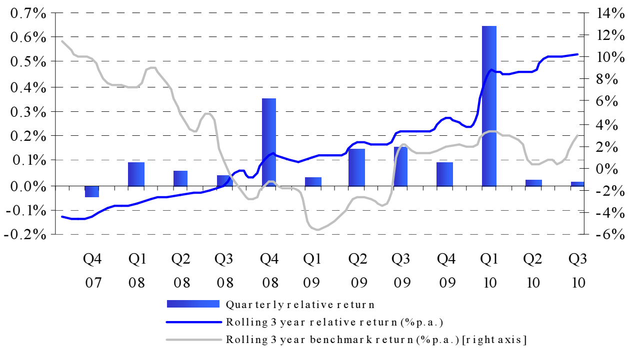
Source: Data provided by WM Performance Services, and Gottex

Comments:

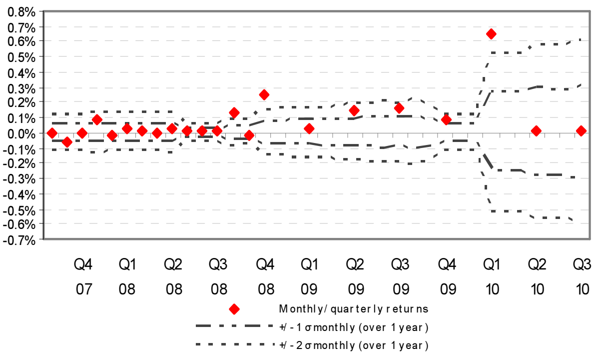
- Over the last quarter the Fund outperformed the benchmark by 0.5%, producing an absolute return of 1.4%.
- Over the last year the Fund outperformed the benchmark by 1.5%, producing an absolute return of 5.2%. Over the last 3 years, the Fund underperformed the benchmark by 8.7% p.a., producing an absolute return of -2.7% p.a.
- The key drivers of performance were Asset Backed Securities ("ABS"), Fixed Income Arbitrage, Convertible and Credit Arbitrage. Performance for the quarter was negatively impacted mostly by the Asset Backed and Asset-Based Lending strategies.
- The Fund has a diverse range of strategy exposures, with the major exposures continuing to be Long-Short Credit, MBS, ABS and Convertible Arbitrage Strategies. There has been a gradual increase in allocation to Asset-Backed Securities over the past five quarters.
- 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.

BlackRock – Passive Multi-Asset

Relative returns #1

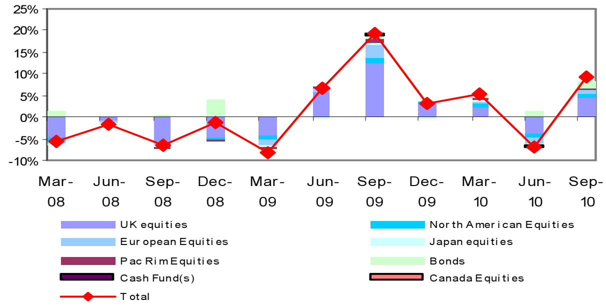


Monthly/Quarterly relative returns #2

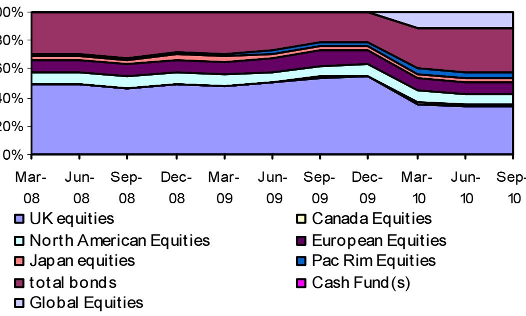


Note that return after Q4 2008 above are quarterly returns.

***Contribution to absolute return** #6



Asset Allocation #5



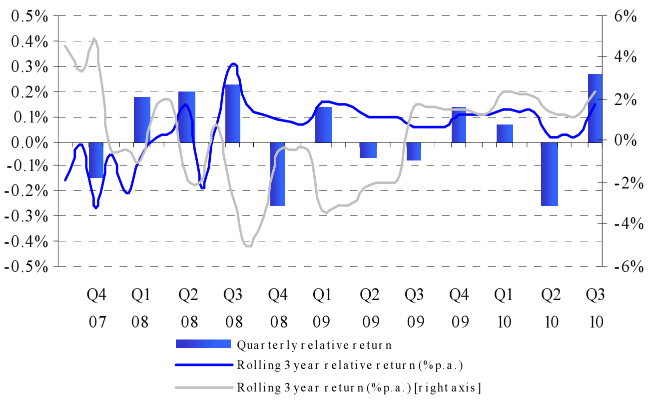
Source: Data provided by WM Performance Services, and BlackRock

Comments:

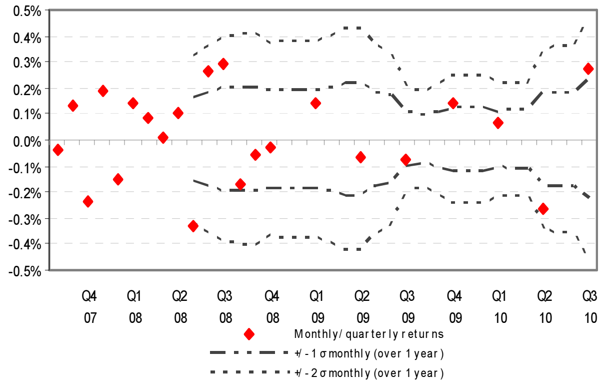
- Over the last quarter the Fund marginally outperformed the benchmark, producing an absolute return of 9.1%.
- Over the last year the Fund outperformed the benchmark by 0.8%, producing an absolute return of 10.7%. Over the last 3 years the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 3.5% p.a.
- 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 portfolio has outperformed its benchmark for the last 11 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- Over the last quarter, changes to the asset allocation have been driven by investment market movements. Over the 1 year, there have been changes due to tactical and strategic asset allocation; the total allocation to bonds has increased, while the allocation to equities has reduced. For example, the reversal of the tactical corporate bond position in January 2010 resulted in an increase in government bonds within the BlackRock portfolio.

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

Relative returns #1



Monthly relative returns #2



Note that return after Q4 2008 above are quarterly returns.

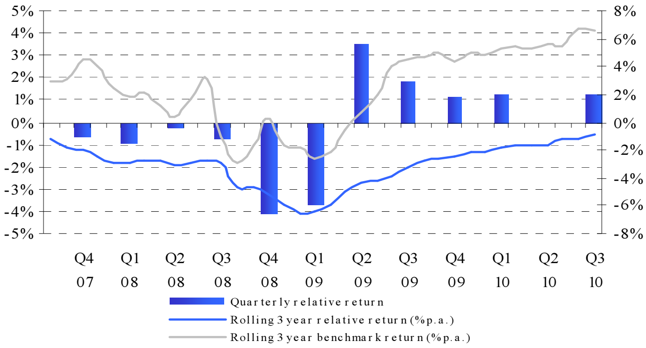
Source: Data provided by WM Performance Services, and BlackRock

Comments:

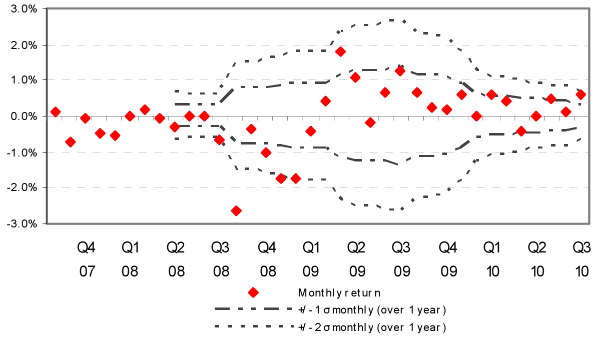
- Over the last quarter the Fund outperformed the benchmark by 0.3%, producing an absolute return of 6.3%.
- Over the last year the Fund produced a return of 6.6%, outperforming the benchmark by 0.2%. Over a rolling 3 year period the Fund produced as absolute return of 2.5%p.a., outperforming the benchmark return by 0.2%.
- The Fund has produced a relatively low absolute return due to high cash element (although gradually reducing over the quarters). Over the last year it has produced a return close to the benchmark.
- Being passively managed the relative performance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small, however, it has been increasing marginally over the last two quarters.
- There were no significant changes to the asset allocation over the quarter; however the allocation to Conventional Gilts as a percentage has increased. This has arisen as mostly equity investments were sold to fund the investments into property over the period. The allocation to cash has also reduced due to investments being made into property.

Royal London Asset Management – Fixed Interest

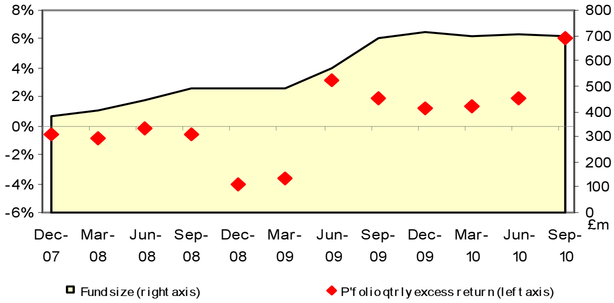
Relative returns #1



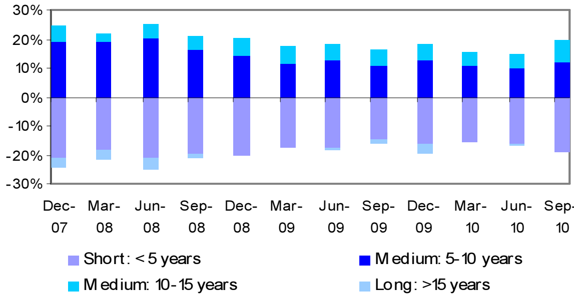
Monthly relative returns #2



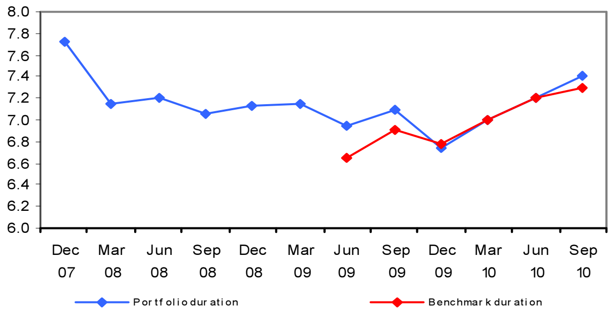
Performance v fund size #3



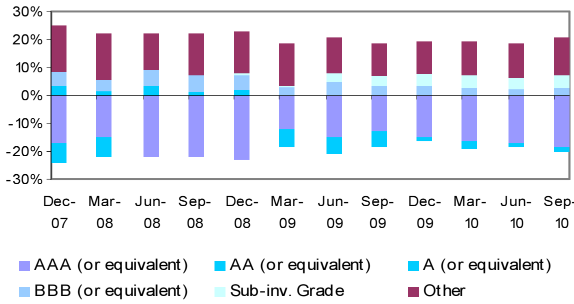
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter the Fund outperformed the benchmark by 1.3%, producing an absolute return of 6.1%.
- Over the last year the Fund outperformed the benchmark by 3.9%, producing an absolute return of 15.4%. Over a rolling 3 year period, the Fund underperformed the benchmark by 0.8% p.a., producing an absolute return of 5.7% p.a.
- The Fund outperformed the benchmark over the last quarter, with the portfolio being underweight to AAA, and in favour of BBB, sub-investment and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity bonds.

Schroder – UK Property

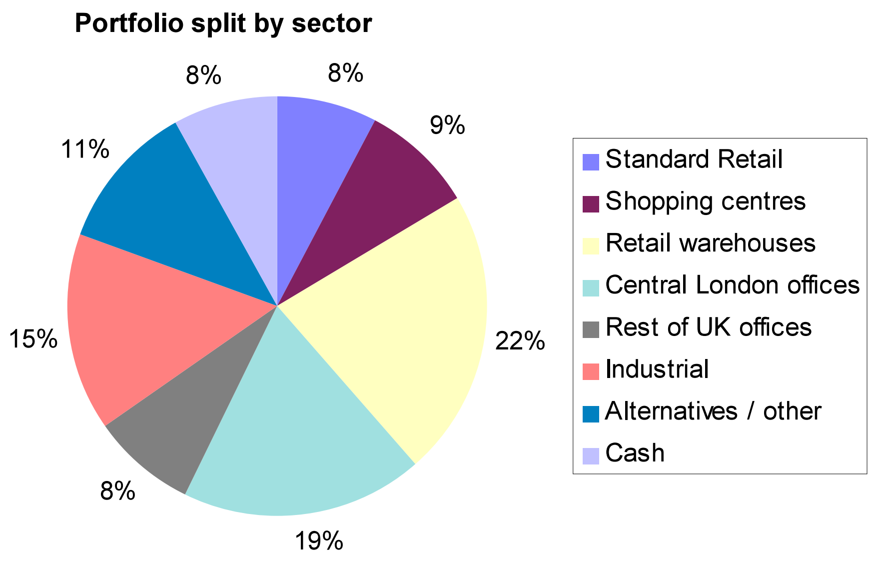
- The mandate awarded to Schroder by the Fund commenced in February 2009.
- The Fund appointed Schroder to manage UK property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Due to the recency of the first investments into the portfolio, a full quantitative assessment of Schroder is not yet possible. However, we provide here a qualitative update and assessment of the manager.

Portfolio update

As at 28 September 2010, approximately 95% of the Fund's £90million committed cash had been drawn by Schroder.

To date, the drawn down monies have been invested across 14 different underlying funds. Of these funds, 5 are "core" investments (comprising 57% of the total portfolio) and 9 are "value add" investments (the remaining 43% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 30 September 2010, was split between sectors as shown in the following chart.



In terms of relative positioning, the allocations above are, (compared with the benchmark, the UK IPD Pooled Property Index) underweight standard retail, non-London offices and industrial properties and overweight in the other sectors. The most significant overweights are to central London offices and alternatives.

With evidence that a two tier investment market is emerging, Schroder continues to review potential opportunities selectively. They feel that the best property funds remain in demand and command a premium on the secondary market. However, some closed-ended funds are now trading at discounts while certain open-ended funds are experiencing redemptions. In the short term their selectivity, and the staggered draw downs to unseeded funds (i.e. those with few or no initial underlying investments), may lead to above average levels of cash. However, as noted in the previous quarter by Schroder, the short term opportunity cost of holding cash will reduce as the market stabilises, while in the medium term they hope to benefit from the above benchmark returns these investments offer.

Recent investments have been made to retain the balance of core and value added funds within the portfolio following the additional £20 million allocation to the fund. In Q4 Schroder anticipates purchasing the remaining target allocation to the Hermes PUT, topping up the allocation to some other existing core funds and making the first investment in the Prudential M&G Pooled Pensions Property Fund.

Performance over Q3 2010

- Schroder produced a return of 1.5% over the three months to 30 September 2010, versus the benchmark return of 1.9%. The key drivers of the relative return over the period were:
- Performance attribution over the quarter is dominated by the positive contribution from established funds that are fully invested and have favourable sector allocations, including Central London offices, and negative contribution from recently purchased funds that have incurred transaction costs (Hermes PUT and Columbus UK Real Estate Fund) or funds that hold relatively high levels of cash (Hansteen UK Industrial PUT and the Legal & General Managed Property Fund).
- The costs associated with buying property (and therefore property funds) has weighed on short term returns as capital has been invested. A further £12 million of investments were made in the third quarter, representing approximately 14% of the end Q2 2010 portfolio value.
- Twelve month returns are still dominated by the weighted contribution of funds that have been held for the entire period. The strongest positive contribution has come from the Hercules Unit Trust reflecting units bought at a discount to NAV and the hardening of yields and moderately geared nature of the fund. Cash or cash rich funds have provided the strongest negative contribution to returns over the period.

Conclusion

Schroder's intention when they were appointed was to fully establish the Fund's portfolio over a period of around 18 months, and this appears to be on track. The portfolio is diverse, as one might expect for a multi-manager vehicle, although even at this early stage evidence of Schroder's outlook can be seen in the portfolio positioning. Schroder do note that the portfolio sector structure and property fund allocations will be reviewed again once the portfolio is fully invested.

We have no concerns with Schroder.

Partners – Overseas Property

- 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 £34.3 million of the Fund's intended commitment of approximately £90 million. The draw downs commenced in September 2009.

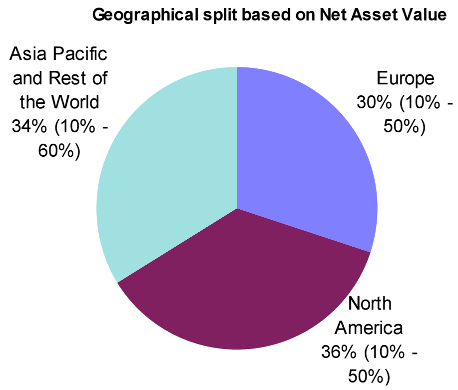
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different time periods of investment (vintage years).

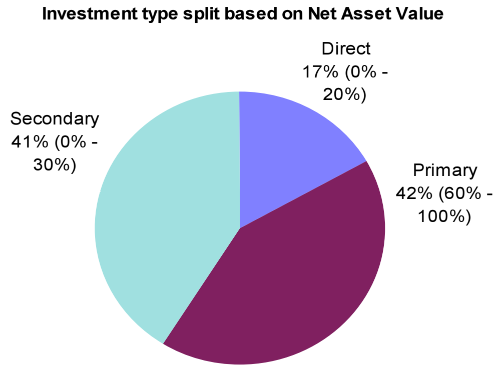
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ m)	Net Asset Value as at 30 September 2010 (£m)
Asia Pacific and Emerging Market Real Estate 2009	3.95	3.99
Distressed US Real Estate 2009	8.93	9.55
Global Real Estate 2008	18.16	17.36
Real Estate Secondary 2009	3.28	3.23
Total	**34.32**	**34.13**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 2010, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

The geographical allocation shown is consistent with Partners' current investment outlook, which favours Asia Pacific and Emerging Markets on the grounds that such economies will drive future global growth. Partners are have a broadly neutral view with respect to North America, and the current overweight to this region is expected to reduce as further draw downs are made.

In terms of the portfolio allocation by investment type, currently Partners are underweight primary investments and this allocation is below the lower bound of the investment restrictions in place for the longer term portfolio, with a commensurate overweight to secondary investments.

Changes proposed by Partners with respect to asset allocation investment guidelines increases the range of minimum and maximum permitted holdings for Primaries, Secondaries and Direct Investment holdings as compared to older guidelines. With a broader permissible range of allocating monies, Partners has reduced investment constraints and made the fund allocations more flexible.

Short term deviation from the allocation restrictions in place can be expected at such an early stage of investment and we do not believe the current positioning to be of concern. Additionally, the overweight to secondary investments reflects Partners' strong view that this market offers attractive value.

Performance over Q3 2010

Partners produced a return of 3.8% over the three months to 30 September 2010. Information for the portfolio's stated benchmark (the IPD Global Pooled Property Index) is not yet available. We do note that the Partners portfolio proved a good diversifier from global equities over this short period. Performance attribution for Partners is unavailable at this point, as benchmark data is not yet published and the Fund's investments are at such an early stage.

Conclusion

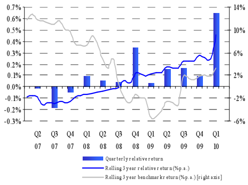
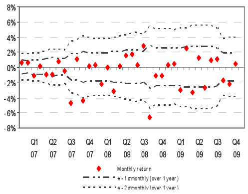
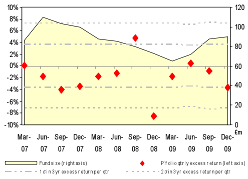
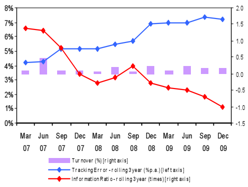
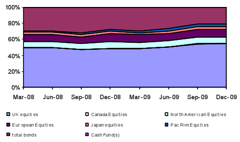
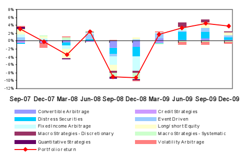
The early stages of investment in a private real estate portfolio are about establishing a diversified portfolio whilst aiming to mitigate the "J curve effect" (the tendency of such investments to deliver negative returns in early years, driven by initial costs, and positive returns in later years as the portfolio matures).

Although it remains very early days for Partners, they have stuck to their stated approach of building a diverse portfolio by region, type of investment (primary, secondary and direct), and by vintage year. The manager has employed a strategy whereby value opportunities are attained via the purchase of perceived high quality funds at discounts from distressed sellers, and growth is sought by overweighting Emerging Markets. This appears to be a sensible approach to mitigating the impact of the J-curve effect

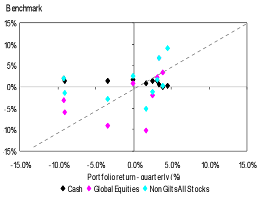
We have no concerns with Partners.

Appendix A – Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

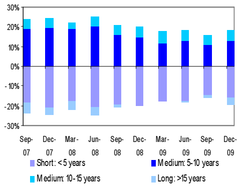
Reference		Description
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlayed 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).
#3		This chart shows the relative performance on a quarterly basis. The dotted lines show the standard deviation of returns for a quarter - based on the latest quarter 3 year standard deviation. (See #2 above for further detail on interpretation). The total size of the underlying fund is overlayed in yellow (portfolio value in blue) to identify any trend in diminished performance with increasing fund (portfolio) size, as sometimes observed.
#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



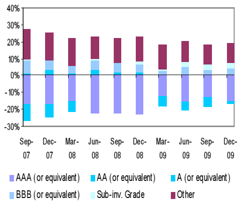
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



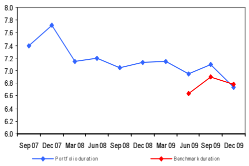
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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 B – 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%
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	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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